

IMPORTANT NOTICE

THE OFFERING CONTEMPLATED BY THE PRELIMINARY OFFERING MEMORANDUM FOLLOWING THIS NOTICE IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("QIBs") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, AS AMENDED (THE "SECURITIES ACT")) OR (2) NON-U.S. PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the following preliminary offering memorandum, and you are advised to read this carefully before reading, accessing or making any other use of the preliminary offering memorandum. In accessing the preliminary offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES BY ANY PERSON IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS. THE NOTES ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF THE FOLLOWING: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, "MIFID II"); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC ("IMD"), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. IN ADDITION, IN THE UNITED KINGDOM THE PRELIMINARY OFFERING MEMORANDUM IS ONLY BEING DISTRIBUTED TO (A) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM (B) PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "ORDER") OR (C) HIGH NET WORTH ENTITIES FALLING WITHIN ARTICLE 49(2) OF THE ORDER, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO (I) IN THE UNITED KINGDOM, RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA OTHER THAN THE UNITED KINGDOM, QUALIFIED INVESTORS, AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS.

THE FOLLOWING PRELIMINARY OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF SUCH DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the preliminary offering memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act). The preliminary offering memorandum is being sent at your request and by accepting the e-mail and accessing the preliminary offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons (within the meaning of Regulation S under the Securities Act), and (2) that you consent to delivery of such preliminary offering memorandum by electronic transmission.

You are reminded that the preliminary offering memorandum has been delivered to you on the basis that you are a person into whose possession the preliminary offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the preliminary offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

The preliminary offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently neither the initial purchasers, nor any person who controls them nor any of their directors, officers, employees nor any of their agents nor any affiliate of any such person accept any liability or responsibility whatsoever in respect of any difference between the preliminary offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the initial purchasers.



Empresa de Transmisión Eléctrica S.A.

U.S.\$

% Senior Notes due

Issue date:

Public Offering Authorized by the Superintendency of Capital Markets
under SMV Resolution No. of , 2019

We are a corporation (*sociedad anónima*) organized and existing under the laws of the Republic of Panama ("Panama") domiciled in Panama and duly recorded since January 22, 1998 in the Mercantile Section of the Panamanian Public Registry Office, at Folio number 340443 (s), contact telephone is +507 501-3800 (the "Issuer"). Our commercial address is located at PH Sun Tower, Piso 3, Vía Ricardo J. Alfaro, Panama, Republic of Panama. We are offering U.S.\$ million in aggregate principal amount of our % Senior Notes due (the "notes").

Interest on the notes will accrue from the date of issuance at a rate that will be notified to the *Superintendencia del Mercado de Valores* (the "Superintendency of Capital Markets", or the "SMV") and the *Bolsa de Valores de Panamá, S.A.* (the "Panama Stock Exchange" or the "PSE") on the business day prior to the issue date, calculated on the basis of a 360-day year consisting of twelve 30-day months, and will be payable semi-annually in arrears in cash on each and beginning on , 2019. The notes will mature on , (the "Maturity Date"). The ratio of the total principal amount of the notes being offered to the paid-in capital (defined as common shares plus additional paid-in capital) of the Issuer is times. Interest on the notes will be payable on each and , beginning on , 2019 (each a "Payment Date"); *provided* that if any such date is not a business day, then payment will be made on the next day that is a business day. Principal on the notes will be payable on the same dates as interest on the notes, beginning on , , with the final payments thereof being required to be made on the Maturity Date. For a description of the principal amortization schedule of the notes, see "*The Offering*."

We may redeem the notes in whole or in part at any time, or from time to time at the redemption prices set forth herein. See "Description of the Notes – Optional Redemption – Make-whole redemption." In addition, we may redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, upon the occurrence of specified events relating to tax law, all as described under "Description of the Notes – Optional Redemption – Optional Redemption for Taxation Reasons."

The notes will be senior unsecured obligations and will rank *pari passu* in right of payment with all of our existing and future unsecured and unsubordinated senior indebtedness (except those obligations preferred by operation of Panamanian law). The notes will be effectively subordinated to any of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. In addition, the notes will be structurally subordinated to all existing and future unsecured and unsubordinated debt and other liabilities (including trade payables) of our subsidiaries, if any.

Investing in the notes involves significant risks. See "Risk Factors" beginning on page 23 for a discussion of certain information that you should consider before investing in the notes.

Issue Price: %, plus accrued interest, if any, from , 2019

We have not registered and will not register the notes under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or under any state securities laws. Therefore, we may not offer or sell the notes within the United States to, or for the account or benefit of, any U.S. person unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, we are only offering the notes (1) to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and (2) to "non-U.S. persons" in compliance with Regulation S under the Securities Act. See "Transfer Restrictions" for additional information about eligible offerees and transfer restrictions. The notes are not being offered to the public within the meaning of Directive 2003/71/EC of the European Union, as amended, and this offer is not subject to the obligation to publish a prospectus under that Directive.

THE NOTES WILL BE OFFERED FOR SALE BY THE ISSUER ON THE PANAMA STOCK EXCHANGE ON THE ISSUE DATE PURSUANT TO A PUBLIC AUCTION PROCESS DETAILED ELSEWHERE IN THIS OFFERING MEMORANDUM. THE ISSUER WILL EXECUTE A PURCHASE AGREEMENT ON THE DATE HEREOF UNDER WHICH, SUBJECT TO CERTAIN CONDITIONS, THE INITIAL PURCHASERS SUBMIT A BID TO PURCHASE THE NOTES ON THE PUBLIC AUCTION DATE AND, PROVIDED THAT THE BID OF THE INITIAL PURCHASERS ON THE PANAMA STOCK EXCHANGE IS THE HIGHEST (AND IN CASE OF EQUALITY, EARLIEST) BID, SUCH BID WILL BE ACCEPTED BY THE ISSUER. THE INITIAL PURCHASERS WILL ONLY BE OFFERING THE NOTES TO INVESTORS SUBJECT TO SATISFACTION OF ALL SUCH CONDITIONS. SEE "PLAN OF DISTRIBUTION" FOR MORE INFORMATION.

Global Coordinator

Scotiabank

Structuring Agents and Joint Bookrunners

BofA Merrill Lynch

Scotiabank

Joint Lead Manager

Banco General

(Continued from front cover.)

On or prior to the date the notes are issued, the notes are expected to have been rated “ ” by . A CREDIT RATING DOES NOT GUARANTEE THE REPAYMENT OF THE OFFERING. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

The notes will be issued in the form of one or more registered notes in global form without interest coupons and will be deposited with a custodian for The Depository Trust Company (“DTC”) in New York, New York and registered in the name of Cede & Co., as nominee of DTC. Investors may hold their interests in a global note representing the notes through organizations that are participants and indirect participants in DTC, including Euroclear Bank SA/NV (“Euroclear”) or Clearstream Banking, *société anonyme* Luxembourg (“Clearstream”). Beneficial interests in the notes may be held in Panama through Central Latinoamericana de Valores S.A. (“LatinClear”), a participant in Euroclear and Clearstream.

The notes and the information contained in this offering memorandum will be registered with the SMV and the PSE.

THE PUBLIC OFFERING OF THE NOTES HAS BEEN AUTHORIZED IN PANAMA BY THE SMV. THIS AUTHORIZATION DOES NOT IMPLY THAT THE SUPERINTENDENCY RECOMMENDS INVESTING IN THE NOTES NOR DOES IT REPRESENT A FAVORABLE OR UNFAVORABLE OPINION ON THE ISSUER’S BUSINESS PROSPECTS. THE PANAMA SECURITIES MARKET SUPERINTENDENCY WILL NOT BE RESPONSIBLE FOR THE ACCURACY OF THE INFORMATION PRESENTED IN THIS OFFERING MEMORANDUM OR OF THE DECLARATIONS CONTAINED IN THE REGISTRATION APPLICATION OR THE OTHER DOCUMENTATION AND INFORMATION PRESENTED BY US FOR THE REGISTRATION OF THE PUBLIC OFFER.

THE LISTING AND TRADING OF THE NOTES HAVE BEEN AUTHORIZED BY THE PANAMA STOCK EXCHANGE. THIS AUTHORIZATION DOES NOT IMPLY ANY RECOMMENDATION OR OPINION REGARDING THE NOTES OR THE ISSUER.

TO THE EXTENT THAT THE SPANISH LANGUAGE OFFERING MEMORANDUM USED IN CONNECTION WITH THE OFFERING OF THE NOTES CONFLICTS WITH THIS ENGLISH LANGUAGE OFFERING MEMORANDUM, THIS ENGLISH LANGUAGE OFFERING MEMORANDUM SHALL GOVERN AND CONTROL. *EN LA MEDIDA EN QUE EL PROSPECTO INFORMATIVO EN IDIOMA ESPAÑOL UTILIZADO EN RELACIÓN CON LA OFERTA DE LOS BONOS CONTRADIGA O PRESENTE UN CONFLICTO CON EL PROSPECTO INFORMATIVO EN IDIOMA INGLÉS, ÉSTE ÚLTIMO REGIRÁ Y CONTROLARÁ.*

THESE NOTES ARE CURRENTLY IN THE REGISTRATION PROCESS WITH THE SMV AND THEREFORE THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS SUBJECT TO REVISION AND CHANGES THAT MAY SUBSTANTIALLY VARY THE TERMS AND CONDITIONS OF THE DESCRIBED OFFER. THIS DOCUMENT IS DISTRIBUTED FOR INFORMATION PURPOSES ONLY.

Neither the U.S. Securities and Exchange Commission nor any U.S. state securities commission has approved or disapproved of these securities or determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

We expect that delivery of the notes will be made to investors in book-entry form through DTC for the accounts of its direct and indirect participants, including Clearstream, Euroclear and LatinClear on , 2019.

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No person has been authorized to give any information or to make any representations other than those contained in this offering memorandum and, if given or made, such information and representations must not be relied upon as having been authorized. The initial purchasers and we take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or any offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

Unless otherwise specified, the terms “ETESA,” “Issuer,” “Company,” “we,” “us,” and “our” in this offering memorandum refer to Empresa de Transmisión Eléctrica S.A. References to “Panama” are to the Republic of Panama; references to the Panamanian Government are to the government of Panama; references to the “United States” or “U.S.” are to the United States of America.

You should only rely on the information contained in this offering memorandum. Neither we nor the initial purchasers have authorized anyone to provide you with different information. Neither we nor the initial purchasers are making an offer of the notes in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the cover of this offering memorandum regardless of time of delivery or any sale of the notes.

This offering memorandum is based on information provided by us and by other sources we believe to be reliable. We accept responsibility for the information contained in this offering memorandum. To the best of our knowledge this offering memorandum does not contain any material misstatement or omission. This offering memorandum summarizes certain documents and other information, and we refer you to those sources for a more complete understanding of what we discuss in this offering memorandum. The initial purchasers assume no responsibility for, and make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is or shall be relied upon as, or a promise or representation by the initial purchasers as to the past or future. The initial purchasers assume no responsibility in relation to the accuracy or completeness of the information in this offering memorandum or any other information provided by the issuer or any of the guarantors.

This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or the affairs of our parent company or our subsidiaries or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes described in this offering memorandum. We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the notes offered by this offering memorandum. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Scotia Capital (USA) Inc., will act as initial purchasers with respect to the offering of the notes. This offering memorandum is personal to you and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the notes. This offering memorandum may not be distributed to any person or entity other than the intended recipients. Distribution of this offering memorandum to any person other than a prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized.

You must comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the notes, and obtain any required consent, approval or permission for the purchase, offer or sale by you of the notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither we nor the initial purchasers or their respective agents have any responsibility therefor. See “Transfer Restrictions” for information concerning some of the transfer restrictions applicable to the notes.

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

This offering memorandum has been prepared on the basis that any offer of notes in any Member State of the EEA will be made pursuant to an exemption under the Directive 2003/71/EC (as amended, the “Prospectus Directive”) from the requirement to publish a prospectus for offers of notes. This offering memorandum is not a prospectus for the purposes of the Prospectus Directive.

The above selling restriction is in addition to any other selling restrictions set out below.

This offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a “relevant person”). This offering memorandum and its contents should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this offering memorandum or any of its contents.

By accepting this offering memorandum you acknowledge that:

- you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum;
- you have not relied on the initial purchasers or their respective agents or any person affiliated with the initial purchasers or their agents in connection with your investigation of the accuracy of such information or your investment decision; and
- no person has been authorized to give any information or to make any representation concerning us or the notes other than those as set forth in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the initial Purchasers or their agents.

In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved. The notes have not been recommended by the U.S. Securities and Exchange Commission, (the “SEC”), or any state securities commission or any Panamanian or other securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense. In connection with this offering, the initial purchasers may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the initial purchasers will undertake any stabilization action at all. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made and, if begun, may be discontinued at any time.

For the sale of the notes in the United States, we are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. The notes may not be transferred or resold except as permitted under the Securities Act and related regulations and applicable state securities laws. In making your purchase, you will be deemed to have made certain acknowledgements, representations and agreements set forth in this offering memorandum under the caption “Transfer Restrictions.” You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

This offering memorandum may only be used for the purpose for which it has been published. Neither the initial purchasers nor any of their respective agents is making any representation or warranty as to the accuracy or completeness of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

See “Risk Factors” for a description of certain important factors relating to an investment in the notes, including information about our business. None of us, the initial purchasers nor any of our or their representatives is making any representation to you regarding the legality of an investment by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of

a purchase of the notes. The notes will be available initially only in book-entry form. We expect that the notes offered and sold in the United States to “qualified institutional buyers” (“QIBs”), in reliance upon Rule 144A under the Securities Act will be represented by beneficial interests in a single, permanent global note in fully registered form without interest coupons (the “Rule 144A note”). We expect that the notes offered and sold outside the United States to “non-U.S. persons” pursuant to Regulation S under the Securities Act will be represented by beneficial interests in a single, permanent global note in fully registered form without interest coupons (the “Regulation S note”, and, together with the Rule 144A note, the “global notes”). The global notes will be deposited with The Depository Trust Company (“DTC”). Notes will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. See “Description of the Notes – Form and Denominations” for further discussion of these matters.

We are not making any representation to any purchaser of the notes regarding the legality of an investment in the notes by such purchaser under any legal investment or other laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the notes.

The contents of our website do not form part of this offering memorandum.

The offering memorandum contains some of our trademarks, trade names and service marks, including our logos. Each trademark, trade name or service mark of any company appearing in this offering memorandum belongs to its respective holder.

There are no conflicts of interest between members of the administrative, management or supervisory bodies and any duties of the Issuer and persons responsible for the information provided in this offering memorandum.

ENFORCEMENT OF CIVIL LIABILITIES

We have been advised by our Panamanian counsel, Icaza, Gonzalez-Ruiz & Aleman, that no treaty exists between the United States and Panama for the reciprocal enforcement of foreign judgments and that there is doubt as to the enforceability, in original actions in Panamanian courts, of liabilities predicated solely on United States federal securities laws and as to the enforceability in Panamanian courts of judgments of United States courts obtained in actions predicated upon the civil liability provision of the United States federal securities laws. In any case, judgments of courts outside Panama, including but not limited to judgments of United States courts, may only be recognized and enforced by the courts of Panama in the event that the Supreme Court of Panama validates the judgment by issuing a writ of *exequatur*. Subject to a writ of *exequatur*, any final money judgment rendered by any foreign court will be recognized, conclusive, and enforceable in the courts of Panama without reconsideration of the merits, provided that (i) such foreign court grants reciprocity to the enforcement of judgments of courts of Panama, (ii) the party against whom the judgment was rendered, or its agent, was personally served (service by mail not being sufficient) in such action within such foreign jurisdiction, (iii) the judgment arises out of a personal action against the defendant, (iv) the obligation under the judgment is lawful in Panama and does not contradict the public policy of Panama, (v) the judgment is properly authenticated by diplomatic or consular officers of Panama, or pursuant to the 1961 Hague Convention on the legalization of documents and, (vi) a copy of the final judgment is translated into Spanish by a licensed translator in Panama. Any final money judgment rendered against us and validated by the Supreme Court of Panama will be delivered by the Supreme Court of Panama to us for payment.

All of our directors and officers are residents of Panama or elsewhere outside of the United States. All or a substantial portion of the assets of these persons are located in Panama or outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, or to enforce against them judgments predicated upon the civil liability provisions of U.S. federal securities laws, or otherwise obtained, in U.S. courts. Because all or a substantial portion of our assets are located outside the United States, any judgment obtained in the United States against us may not be fully collectible in the United States. See “Risk Factors—Risks relating to Panama—Panama is a sovereign state, and we are a wholly-owned subsidiary of the Government; consequently, it may be difficult to enforce judgments against us.”

We have appointed CT Corporation System located at 28 Liberty Street, New York, New York 10005 as our authorized agent upon which process may be served in any action arising out of or in connection with the Notes. With respect to such actions, we have submitted to the non-exclusive jurisdiction of the courts of any New York State or U.S. federal court in the Borough of Manhattan in the City of New York.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum includes “forward-looking statements” within the meaning of U.S. securities laws, or collectively, forward-looking statements. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements can often be identified by the use of terminology such as “subject to,” “believe,” “anticipate,” “plan,” “expect,” “intend,” “estimate,” “project,” “envision,” “predict,” “target,” “contemplate,” “potential,” “may,” “will,” “should,” “would,” “could,” “can,” the negatives thereof, variations thereon and similar expressions, or by discussions of strategy. In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- changes in our regulatory environment, including regulation of the energy markets by the Panamanian Government and the costs of complying with environmental regulations;
- our primary regulator’s review and adjustment of our maximum permitted income and applicable tariff;
- construction delays for our new power transmission facilities in order to meet generation capacity and demand of the ST and avoid mandatory *Generación Obligada* fees;
- ability to continue to receive rights of ways and to purchase land for future electric transmission infrastructure;
- our ability to fund and implement our expansion plan and to have such expansion plan approved by our primary regulator;
- the maintenance of relationships with certain subcontractors for the provision of maintenance and repair services;
- our ability to be successful in litigation brought against us;
- the condition of the Panamanian and world economies;
- inflation;
- the effects of natural disasters, casualties and other catastrophic events and conditions on our business;
- increases in interest rates; and
- other factors that are described herein in “Risk Factors.”

Any forward-looking statement made by us in this offering memorandum speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

Our audited financial statements as of December 31, 2018 and 2017 and for the years ended 2018, 2017 and 2016 (our “audited financial statements”) contained in this offering memorandum have been prepared in accordance with International Financing Reporting Standards (“IFRS”) as issued by the International Accounting Standard Board (“IASB”).

All references herein to “Balboas” or “B/.” are to Balboas, the Republic of Panama’s national currency. All references to “U.S. dollars,” “dollars,” “U.S.\$” or “\$” are to United States dollars.

We maintain our financial books and records and publish our financial statements in Balboas. Shortly after the Republic of Panama’s independence from Colombia in 1903, the Republic of Panama, through a monetary agreement with the United States executed on June 20, 1904, established the U.S. dollar as its legal tender currency. Consequently, the Balboa, the monetary unit of the Republic of Panama, is at par and of free exchange with the U.S. dollar. The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal tender. The use of the U.S. dollar as the country’s legal tender and currency also is expressly recognized by the Republic of Panama’s Tax Code. All amounts set forth in this offering memorandum are shown in Balboas, but as noted above, are equivalent to U.S. dollars.

Certain figures included in offering memorandum and in our financial statements have been rounded for ease of presentation. Percentage figures included in offering memorandum have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this offering memorandum may vary from those obtained by performing the same calculation using the figures in our financial statements. Certain other amounts that appear in this offering memorandum may not sum due to rounding.

NON-IFRS FINANCIAL MEASURES

In this offering memorandum, we disclose non-IFRS financial measures, namely historical EBITDA, Adjusted EBITDA, Debt to EBITDA, Debt to Adjusted EBITDA, EBITDA to Finance Costs, Net and Adjusted EBITDA to Finance Costs, Net, which are non-IFRS financial measures. See “Summary Selected Financial and Other Data” and “Selected Financial and Other Data”. These measures are not recognized under IFRS or any other generally accepted accounting principles as measures of financial performance and should not be considered as substitute to profit (loss) or operating cash flow in IFRS, or other measures of liquidity, since they do not reflect certain costs involved in our operations, such as finance expenses, taxes, depreciation, capital expenses and other related costs, any of which may have a significant effect on our net profit.

These measures, when used in conjunction with related IFRS financial measures, provide investors with additional financial analytical framework which management uses, in addition to historical operating results, as the basis for financial, operational and planning decisions and present measurements that third parties have indicated are useful in assessing our company and its results of operations. You should rely primarily on our IFRS results, and the non-IFRS measures in a supplemental manner. There is no standard definition for of the non-IFRS measures provided in this offering memorandum, and our definitions may not be comparable to equivalent Non-IFRS measures used by other companies.

We calculate EBITDA as net profit (loss) *plus* total income tax, finance costs, net, amortization of right of way and depreciation and amortization. We calculate Adjusted EBITDA as EBITDA *plus* participation in the gain on investments in associated companies, net movement in balance of regulatory deferred activities accounts and compulsory generation (*Generación Obligada*) fees. Debt to Adjusted EBITDA is calculated as the sum of total current debt plus total long term debt over Adjusted EBITDA. EBITDA to finance costs, net is calculated as EBITDA over finance costs, net. Adjusted EBITDA to finance costs, net is calculated as Adjusted EBITDA over finance costs, net.

REGULATORY AND TECHNICAL TERMS

ASEP	The National Authority of Public Services (<i>Autoridad Nacional de los Servicios Públicos</i>). An autonomous agency of the Panamanian Government tasked with overseeing, regulating and organizing the supply of public services throughout Panama. ASEP regulates power generation, transmission, interconnection and distribution activities in the electric sector in Panama.
CND	The National Dispatch Center (<i>Centro Nacional de Despacho</i>), a dependency of ours which is responsible for planning, supervising and controlling the integrated operation of the SIN.
FMIK	<i>Frecuencia Promedio de Interrupción por KVA</i> . The average frequency of interruption per kVa.
Gigawatt (GW)	One billion watts, a unit of power.
Gigawatt hour (GWh)	One gigawatt of power supplied or demanded for one hour, or one billion watt hours. It is a unit of energy.
<i>Generación Obligada</i>	Additional mandatory payments to generators due to shortfalls in providing transmission capacity.
Hydromet	The Hydromet division operates 165 meteorological stations throughout Panama to measure meteorological parameters such as pressure, temperature, extreme temperature, humidity, precipitation (quantity and intensity), wind (speed and direction), evaporation, soil temperature, insolation and solar radiation. It also operates 72 hydrometric stations to measure the river and lake levels continuously throughout the year. Its services include providing reports on the various measurements it makes. Information is consolidated in Hydromet's 24 hour operated control center in Panama City, Republic of Panama.
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board.
Kilovolt (kV)	One thousand volts, a unit of electric voltage.
Kilovolt Amperes (kVa)	One thousand volt-ampere, a unit of apparent power.
Kilowatt (kW)	One thousand watts, a unit of power.
Kilowatt hour (kWh)	One kilowatt of power supplied or demanded for one hour, or one thousand watt hours, a unit of energy
Megawatt (MW)	One million watts, a unit of power
PPA	Power Purchase Agreements are contracts between an electricity generating company as provider and a power purchaser as buyer.
SIN	<i>Sistema Interconectado Nacional</i> , is composed of all generation facilities, transmission lines, distribution grids and related infrastructure, which are interconnected in a single national system.
ST	<i>Sistema de Transmisión</i> , the Panamanian electrical transmission system that belongs to ETESA, which consists of high voltage power lines, substations,

transformers and other transmission components necessary to transmit energy from power generation companies to the different delivery points such as the distribution companies, international grids and large scale consumers.

SNE	<i>Secretaría Nacional de Energía</i> , is an agency within the executive branch of government reporting directly to the Office of the President. The SNE's mission is to establish and promote the energy policy of Panama in order to, among other things, guarantee the supply of energy throughout Panama, promote efficient energy use, promote renewable sources of energy and mitigate climate change.
TTIK	<i>Duración Total de Interrupción por KVA</i> . The total duration of interruptions per kVa.
Volt	The basic unit of electric force, equivalent to one joule of energy per coulomb of charge.
Watt	The basic unit of electrical power, equivalent to one joule of energy per second.

SUMMARY

This summary highlights information appearing elsewhere in this offering memorandum. This summary is not complete and does not contain all of the information that you should consider before investing in the notes. You should carefully read the entire offering memorandum, including the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and related notes included elsewhere in this offering memorandum before making an investment decision. In addition, certain statements are forward-looking statements which involve risks and uncertainties. See “Cautionary Note Regarding Forward-Looking Statements”.

Overview

Empresa de Transmisión Eléctrica, S.A. was formed as a *sociedad anónima* by Public Deed No. 148 of January 19, 1998 as a result of the restructuring of the Institute of Hydraulic Resources and Electricity (*Instituto de Recursos Hidráulicos y Electrificación*, “IRHE”). The IRHE was created in 1961 by the Government of Panama as an entity in charge of coordinating and expanding electricity generation, transmission and distribution throughout Panama. The IRHE was also created with the objective of increasing access to electricity to secluded regions of the country. In 1973, the city of Santiago de Veraguas located approximately 250 kms west of Panama City was integrated into the electrical grid. In 1976, the western most province of Chiriquí was integrated through a 230kV line. In 1985, Panama’s transmission system was connected with Costa Rica’s transmission system. In 1999, ETESA is formally registered as a *sociedad anónima* with the Panamanian public registry. In 2003, the second transmission line was completed, after an approximate investment of U.S.\$170 million. In 2014, SIEPAC was completed and entered into service. In 2017, the third transmission line entered into operation.

The restructuring of the IRHE resulted in eight companies that reshaped Panama’s electricity generation and distribution system. These include three distribution companies, four generation companies and ETESA, which is primarily responsible for system’s high voltage power transmission. We continue to operate without any competition in our market based on a concession by the Republic of Panama that will continue until 2024 and by grant of monopoly under the law, notwithstanding the fact that market agents are able to construct, build, operate and maintain connection lines and substations required for the connection of generation plants to the distribution system with the understanding that these connection lines will only be used for the connection of market agents to the ST. However, this does not affect ETESA’s monopoly as it continues to be the only company with a concession granted by law to transmit energy. We have already commenced the process of extending our concession and expect to receive ASEP’s preliminary approval to extend our concession beyond 2024.

Our primary business consists of high voltage transmission from power generation centers to local distribution centers and to large scale consumers. We also are responsible for the delivery of electricity to and from the national grid connection points to international grids and for the operation of the integrated national system. Our mandate is to operate the system reliably, securely and with a high quality of service. Through the National Dispatch Center (*Centro Nacional de Despacho*, “CND”), we are tasked with the administration and the commercialization of the electricity market both in the contractual market and the spot market.

Under Law No.6 of February 3,1997 (“Law No. 6”), we are tasked with the continuing investment and expansion of the national grid for the transmission of electricity in the integrated national system, this includes the operation and building of new installations, reinforcement of the existing grid, the preparation of the expansion plan for transmission services and work plan for generation and maintenance, operation and provision of services related to the meteorological and hydrological national systems.

Our transmission system, the ST, is composed of high voltage power lines, substations, transformers and other transmission components necessary to transmit the energy from power generation companies to the different delivery points such as the distribution companies, international grids and large scale consumers which we define as those consumers which have requirements greater than 100 Kw per site. As of December 31, 2018, our transmission system consisted of 3,088.1 km of 230kV power lines and 306.9 km of 115 kV power lines.

Our Revenues

We recorded revenues from operations in the amount of U.S.\$125.6 million, U.S.\$106.6 million and U.S.\$66.8 million in 2018, 2017 and 2016, respectively. Our net profit after the movement of net balances in the

regulatory deferral accounts for the years 2018, 2017 and 2016 was U.S.\$12.9 million, U.S.\$0.6 million and U.S.\$2.3 million respectively. Our EBITDA for the years 2018, 2017 and 2016 was U.S.\$68.5 million, U.S.\$35.8 million and U.S.\$23.6 million, respectively. Our Adjusted EBITDA for the years 2018, 2017 and 2016 was U.S.\$91.3 million, U.S.\$78.5 million and U.S.\$38.2 million, respectively. Our operating income for the years 2018, 2017 and 2016 was U.S.\$ 51 million, U.S.\$ 10.2 million and U.S.\$ 6.9 million, respectively. Our revenues derive from three main sources: transmission of energy, integrated operation and connection. Transmission of Energy revenues represented 83%, 77% and 68% of our revenues in 2018, 2017 and 2016, respectively. Our revenue growth in 2017 was due in part to our third transmission line becoming fully operational in 2017 and to an increase in our tariff by our regulator. The further increase in such amounts for 2018, reflects the fact that we had a full year of operations of the third transmission line, as opposed to approximately two months in 2017. See—Transmission Services. The second highest source of revenues, integrated operations services, represented 9%, 13% and 19% of our revenues in 2018, 2017 and 2016, respectively. Finally, connection services represented 4%, 7% and 10% in 2018, 2017 and 2016.

Transmission services

Our transmission services involve transmitting electricity from power generation companies in Panama to the consumers of the transmission network, which primarily are the three distributors that hold concessions for distribution of electricity. These distributors are Empresa de Distribución Eléctrica Metro Oeste, S.A. (EDEMET, a subsidiary of Naturgy Energy Group, rated Baa2 by Moody's, BBB by Standard and Poor's and BBB by Fitch Ratings), Elektra Noreste, S.A., (ENSA, a subsidiary of Empresas Públicas de Medellín rated Baa3 by Moody's and BBB by Fitch Ratings) and Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI, also a subsidiary of Naturgy Energy Group).

The transmission services revenue distribution for the year ended December 31, 2018, 2017, 2016 is described in the table below.

Transmission Revenue Distribution	For the year ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Empresa de Distribución Eléctrica Metro Oeste, S. A (EDEMET)	29%	22%	37%
Elektra Noreste, S.A. (ENSA)	28%	19%	27%
Empresa de Distribución Eléctrica de Chiriquí, S. A. EDECHI)	5%	4%	4%

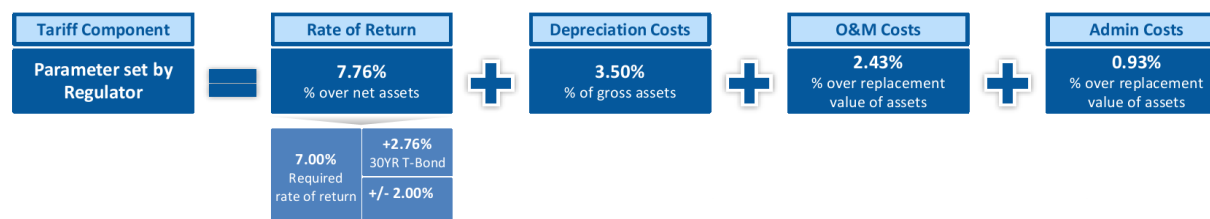
Source: ASEP

Note: Percentages correspond to percentages of total revenues

Our revenues from electricity transmission represent the cost that is assigned to the users of the ST, rather than the cost based on volume transmitted by us. Law No.6 provides that we have a maximum permitted income for our transmission services. This amount is determined through a regulated tariff set by ASEP every four years, which is subject to annual adjustments to provide for economic and industry factors. Our revenues, thus do not depend on the amount of electricity that we transmit, but rather are a function of our productive assets for which generation and distribution companies that utilize the ST are charged. We thus experience no volume risk in terms of transmission revenue. Additionally, if a distribution or generation company fails to pay us their assigned cost under the tariff system, such defaulted payment is then re-distributed and due from the other users of the system based on their market share.

Our tariff scheme is designed to ensure that we generate the necessary returns to guarantee our sustainability. The tariff is designated by ASEP so as to cover costs from operations, maintenance and administration and depreciation incurred from managing the national transmission network, allowing us to generate a positive return on assets. The current tariff scheme was approved in April 2018 and is valid retroactively from July 1, 2017 until June 30, 2021.

The summary components of the current tariff are found below:



Source: ASEP

Since our transmission revenues are derived from the availability of our transmission assets, if we experience a shortfall in transmission capacity, we must compensate for the electricity that we are not able to deliver, through fees paid to power generators and distributors. We refer to this amount of compensation as the *Generación Obligated* fees. We paid *Generación Obligated* fees of U.S.\$8.7 million, U.S.\$43.3 million, U.S.\$15.4 million, U.S.\$21.0 million, U.S.\$14.7 million in 2018, 2017, 2016, 2015 and 2014, respectively. Panama tends to experience an increase in generation capacity during the rainy months (May through December), since rainfall affects the productive capacity of hydroelectric plants, especially in the western part of the country. An increase in generation might surpass our capacity for transmission and potentially we could incur in *Generación Obligated* fees.

The regulator usually approves our yearly tariff adjustments during the second quarter of our fiscal year. Once we receive such approval, we implement the updated tariff in our systems during the month of June and invoice transmission services to our clients thereafter in an adjusted amount which allows us to apply the new tariff retroactively in respect of the previously invoiced periods. Because our invoices are issued approximately 45 days after the end of each calendar month, we typically experience an increase in revenues during the second half of the year, with the largest portion of the increase concentrated in our fourth fiscal quarter.

Currently our transmission system consists of three transmission lines, with the third transmission line having commenced operations in October 2017. The first transmission line is 520 km long with a capacity of 247 kV per circuit, the second transmission line is 389 km long with a capacity of 270 kV per circuit and the third transmission line is 302 km long with a capacity of 100 kV per circuit. While each of our transmission lines has different starting points in the west of the country, they mostly transverse parallel to each other through the country to the population centers in the east of the country.

Integrated Operation Services

Integrated operation services are those provided by the CND and by the Hydrometeorology (“Hydromet”) division. The income received is on the basis of a tariff that is not related to the transmission and connection services tariff. The tariff is meant to cover the cost of administration and operation of these services, but does not provide for any profitability for ETESA. The CND is an agency of ETESA (although not a subsidiary), which coordinates the operations and transactions that take place among the participants of the electricity wholesale market. The CND has operational autonomy and independence, while still reporting to ETESA’s board of directors. Panama’s electricity is sold via two types of markets. The contractual market in which electricity is either sold by generators through power purchase agreements, which are assigned through auctions to the distributors or directly to purchasers in case of an unregulated large scale power consumer or other generation by independent agreement. Additionally, electricity is also sold through a spot market. The CND is tasked with ensuring that there is free competition in a market environment and promoting investment in the electricity sector.

Our Hydromet division is also an inherited function from the IRHE that stems from Law No.6’s restructuring of the electricity sector. Our Hydromet division, which is also not a subsidiary of ETESA and has operational autonomy and independence while still reporting to ETESA’s board of directors, operates 165 meteorological stations throughout Panama to measure meteorological parameters such as pressure, temperature, extreme temperature, humidity, precipitation (quantity and intensity), wind (speed and direction), evaporation, soil temperature, insolation and solar radiation. It also operates 72 hydrometric stations to measure the river and lake levels continuously throughout the year. Its services include providing reports on the various measurements it makes. Information is consolidated in Hydromet’s 24 hour operated control center in Panama City, Republic of Panama.

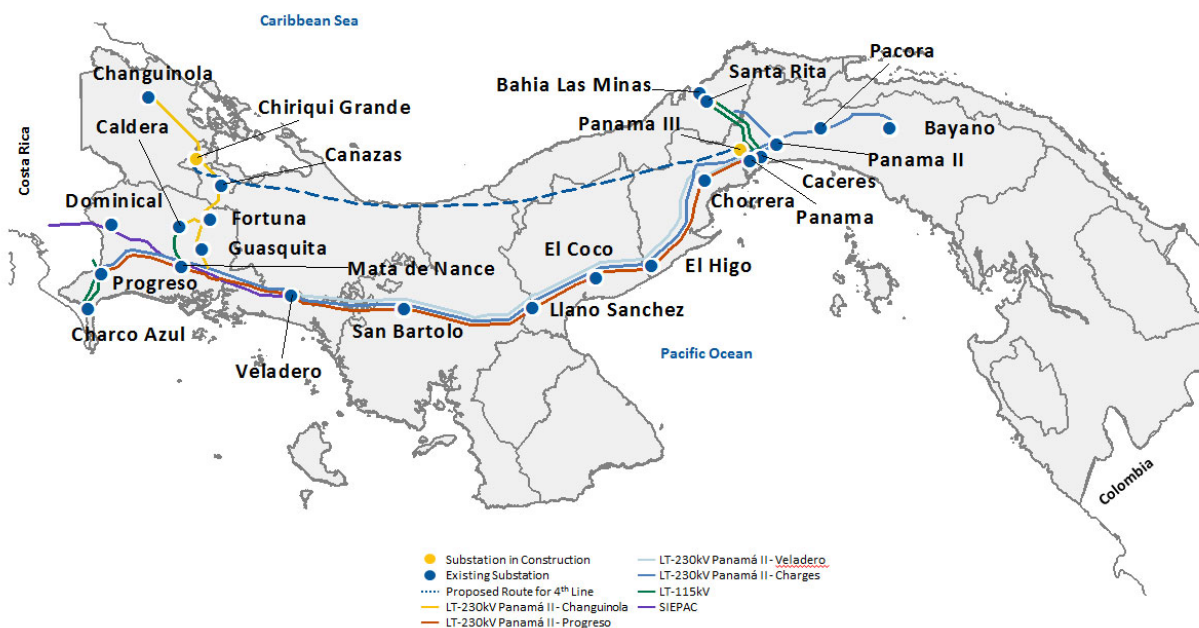
Connection Services

Connection services entail us providing the assets required to connect users to the ST, when such users do not own the assets for connection. The income for connection services come from the same tariff approved by ASEP for transmission services, however, when determining the amount paid to ETESA, included as a component is the fee collection carried out by ETESA for the actual connection services. The tariff also recognizes investments approved and implement as well as the cost of wages approved and executed in connection with the connection assets only. In general, the tariff is meant to recognize and repay approved cost of providing the connection services and is not intended to provide profit to ETESA. Specifically, the connection services are calculated separately from the main transmission system. We charge connection services to EDEMET, *Hydroecological del Teribe, S.A.* and AES Panamá S.A.

Connection services also include connections to the *Sistema de Interconexión Eléctrica de los Países de America Central* (“SIEPAC”) which connects Panama with Costa Rica, Honduras, Nicaragua, El Salvador and Guatemala. We are connected to SIEPAC through the Panama-Costa Rica border at Veladero. The connection became effective on December 31, 2010 and has a total length of 150 km. In total, the transmission line runs 1,790 km from Panama to Guatemala and includes 15 transmission stations. The SIEPAC is owned and operated by the *Empresa Proprietaria de la Red, S.A.* (“EPR”). In turn we own EPR, together with certain public utility and transmission companies of the countries connected to the SIEPAC along with private shareholders (*Endesa of Spain* and *ISA* of Colombia). EPR is the only other company that has received a concession by ASEP to transmit electricity in the territory of Panama, but only with regards to its role with the SIEPAC. We own 11.1% of the EPR, which is the only other company in Panama that has obtained a concession from ASEP for electric transmission in Panama.

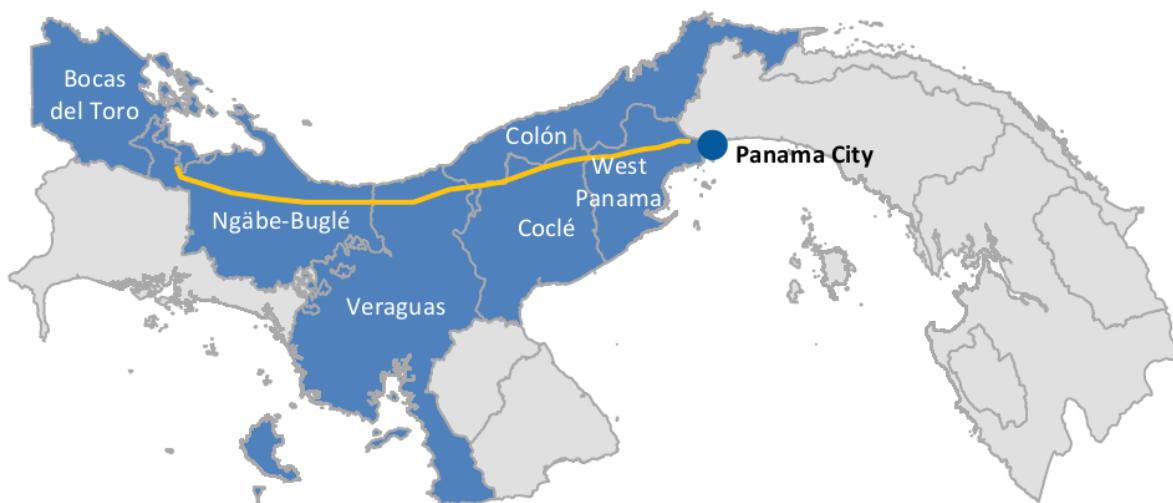
In the future, such services will include connections of the ST to the Colombia-Panama Interconnection (“IECP”), which will link ST and the national transmission system of Colombia by a 614km transmission line. We and ISA of Colombia each own 50% of IECP, the entity that will own and operate the Colombia-Panama Interconnection. IECP petitioned for concession from ASEP to transmit electricity in Panama for the Panamanian side of the Colombia-Panama Interconnection in 2017. ASEP’s decision is still pending. On December 13, 2018, Juan Carlos Varela announced an agreement with the indigenous authorities of the Guna group for the construction of the Colombia-Panama Interconnection.

Below is a map illustrating several of our main transmission lines including the proposed route of the fourth transmission line:



Below is a map illustrating the proposed geographic location of the fourth transmission line:

Geographical Location of Transmission Line



Regions affected by the project — Fourth Transmission Line project

Investment and Capital Expenditures

Law No. 6 requires that we must establish an expansion plan in accordance with the plans developed by the Panamanian government for the development of the energy sector as a whole. The current expansion plan in effect

is included in the expansion plan for the ST 2018-2032 which was approved by ASEP in December 2017 and includes the expansion plans for generation and transmission sectors of Panama, both in the short-term and long-term. We also revise, and ASEP approves, the plan on an annual basis based on changing economic and industry factors.

The largest project included in the long-term plan is to build a fourth transmission line from Bocas de Toro to a new substation in the Panama City area with an expected length of 317 kms. This project is being undertaken in order to transmit an additional 640 MW capacity that is being generated due to increased hydroelectric, wind and solar generation, which is in addition to the existing capacity of 1,980MW. Additionally, the west side of the country has other planned generation projects, such as the Chan II hydroelectric plant, which will need the fourth transmission line to operate. The system currently only has capacity to transmit 2,044 MW, with the new line expected to bring that to 3,900 MW after completion of the second stage. The first stage is expected to be completed by July 2023, with lines capable of transmitting at 230kV with a transport capacity of 589 MW under normal conditions and 797 MW under emergency conditions. We expect that by July 2026, the lines will be able to transmit at 500Kv with a transport capacity of 1,300 MW under normal conditions and 1,630 MW under emergency conditions.

The pre-qualification period for the fourth line bidders started in May 2018. Five potential bidders were pre-qualified for the construction of the line under a build, operate and transfer format bidding process: *Interconexión Eléctrica, S.A.* (Colombia), China Electric Power and Equipment Technology Co Ltd (China), *Consorcio Chiriquí Transmisora de Energía* (Spain), *Consorcio Four Seasons* (India, France and Brazil), and *Consorcio Vasco Núñez de Balboa* (Canada and Spain). China Electric Power and Equipment Technology Co Ltd and *Interconexión Eléctrica S.A.* provided their final bids on April 9, 2019. It is by far the largest project contemplated by the expansion plan and is expected to represent an investment of approximately \$550 million. The project is expected to contribute to the stabilization of the ST, reducing nationwide shortfalls from current levels of approximately 4% to 1.5%-2.0%. The winner of the bidding process will develop the project as a private investor with no recourse to ETESA, pursuant to a 20-year term Build, Operate and Transfer (BOT) contract. The contract process for the fourth transmission line is ongoing and subject to the review and approval of multiple governmental agencies in accordance with Panamanian law.

On February 15, 2019, ASEP issued resolution AN No. 13131 expressly ordering ETESA to abstain from carrying out the public bid for the construction to the fourth transmission line until said authority approved the optimal date for the commencement of the operations of the fourth Transmission line as well as its optimal operating characteristics. ETESA, within the term prescribed by law, requested ASEP to reconsider its Resolution AN No.13131 and provided sufficient evidence to prove that the optimal date and the optimal operating characteristics had already been correctly determined. By means of Resolution AN No. 13194 dated March 18th, 2019, ASEP resolved favorably the request to reconsider filed by ETESA leaving without effect Resolution AN No. 13131 that had ordered ETESA to abstain from carrying out the public bid for the Fourth Transmission Line.

Ownership structure

Our shares are 100% owned by the Republic of Panama in accordance with Law No. 6.

As of December 31, 2018, our total paid-in capital (capital plus additional capital contributions) was U.S.\$193,539,456, our total equity was U.S.\$323,282,901, our capital stock consists of 52,000,000 authorized, issued and paid for common shares with no nominal value. The table below details our stockholder composition:

Type of Shares	Authorized Shares	Issued and Paid Shares	Nominal Value	Paid-in Capital
Common Shares	52,000,000	52,000,000	-	193,539,456
Minus: Treasury Stock	-	-	-	-
Total	52,000,000	52,000,000	-	193,539,456

As of December 31, 2018, our common shares had not been the object of any offer to sale or to trade by third parties nor did we offer to buy or trade the shares with other companies. During the year ended December 31, 2018, we did not issue any new shares.

We don't have any commitments to increase our capital stock in connection with subscription rights, convertible rights or any other security in circulation. There currently are no issued and unpaid shares and we do not have treasury stock.

Our shares are restricted to being 100% owned by the Republic of Panama in accordance with Law No. 6.

The Government of Panama, in the general budget of the State, contemplates appropriations or current contributions, sums that are considered as dividend advances that the shareholders approve. We have not made any such advances during 2018 nor 2017.

Competitive strengths

Key Strategic Asset for Panama

We provide an essential service for Panama's economy since we are a vital link in the chain from power generation companies to the end consumer. We are by law the only operator and owner of the ST, which consists currently of three transmission lines with a fourth planned line of transmission. In addition to the aforementioned law, we also hold a concession to operate the ST until 2024. We expect to obtain a preliminary favorable decision to our application to extend our concession beyond 2024.

Committed Government Ownership

We are 100% owned by the Republic of Panama and have been so since our incorporation in 1998. Historically, our board of directors has been presided by the Minister of Economy and Finance. Additionally, the Republic of Panama has supported us in the past by providing capital contributions since 2011 in a total cumulative amount of \$68.7 million. Periodically, we have received capital contributions from the Republic of Panama in the amount of U.S.\$13.3 million in 2011, U.S.\$26.5 million in 2013, and U.S.\$28.8 million in 2017. We have only paid dividends in two of the last 10 years: U.S.\$5.8 million in 2010 and U.S.\$2.3 million in 2015. We have instead invested most of our annual profits in developing the expansion and the efficiency of our transmission lines, which provides us with a more competitive tariff under the tariff scheme. As an additional benefit, being owned by the Republic of Panama allows us to have access to multilateral financing from institutions such as the *Corporación Andina de Fomento* ("CAF") and *Banco Centroamericano de Integración Económica* ("BCIE").

Supportive and Stable Regulatory Environment.

Our revenues are derived from regulated tariffs, which are determined based on a pricing regime every four years, with the current one expiring in 2021. The tariff scheme is designed to ensure that we generate the necessary investment returns to guarantee our sustainability and allows us to generate positive returns from our assets. In 2018, our tariff was increased by U.S.\$80 million in order to compensate for cost and expenses associated to *Generación Obligada* incurred as a result of delays suffered due to the construction of the Third Transmission Line in the prior year. Such costs and expenses were recognized in 2017 (where U.S.\$40 million were recognized as an asset in the line item Deferral accounts on regulated activities and U.S.\$43 million in the compulsory generation (*Generación Obligada*) account, included within the transmission of energy cost line item).

Strong Economic Backdrop

Panama (rated Baa1 with Stable Outlook by Moody's, BBB with Positive Outlook by Standard and Poor's and BBB with Stable Outlook by Fitch Ratings) is an attractive economy for foreign direct investment with real GDP growth of 5.1%, 5.7%, 5.0% and 5.3% during 2014, 2015, 2016 and 2017. In 2018, Panama's estimated GDP growth was 3.7%, inflation was 0.8% and the unemployment rate was 6.1%. Panama has been one of the fastest growing economy in Latin America over the last decade when measured by GDP growth. The World Bank Group, in its January 2019 outlook, placed Panama as the top performing economy in Latin America and the Caribbean with a 6% GDP growth rate.

Stable and Predictable Cash Flows/Revenues

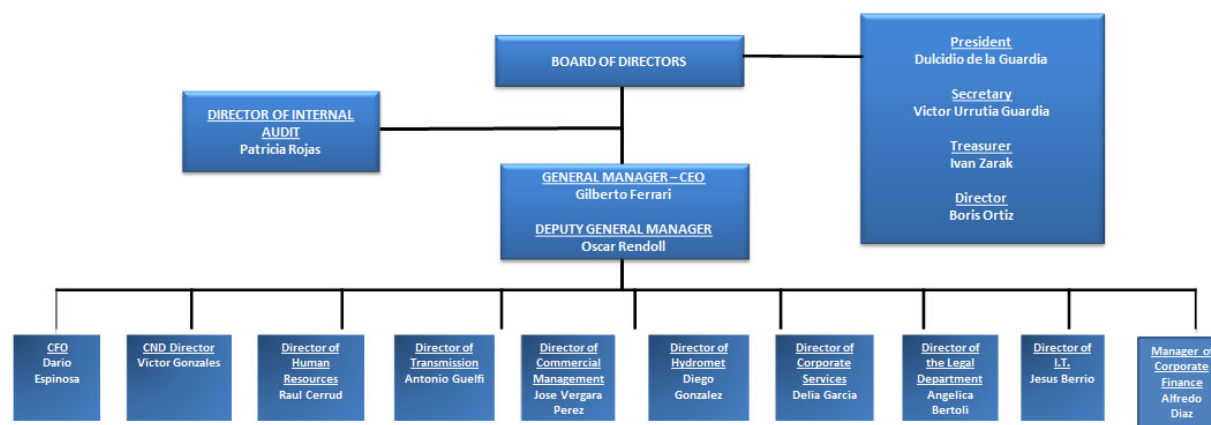
ETESA is guaranteed a minimum permitted income for the transmission services it provides. Additionally, we are not subject to volume risk as our transmission revenues are derived by the volume of electricity transmitted

through the ST, and are a function of our productive assets for which generation and distribution companies are charged. As the only transmission company that provides electricity to Panama's consumers, we have a long standing consumer base.

Experienced Management Team

Our senior management team is deeply experienced in the industry with an average of 22 years of experience.

Below is an organizational chart of our experienced management team:



Industry

In Panama, the electricity market, as in other countries, is made up of participants that play different roles. These participants consist of: generators, distributors, transmission companies and large scale consumers.

Generators. These are market participants that produce energy for sale at the wholesale level. These participants in the market can be classified as a generators (those that produce electricity to be marketed to third parties), self-generators (those that produce and consume electrical energy as a byproduct of their industrial process and that do not market or distribute to third parties or associates, but which may sell surpluses to us and other market participants), co-generators (those that produce electrical energy as a by-product of an industrial process and whose primary purpose is to produce goods or services other than electric power, can sell energy to ETESA and other market agents) and international interconnections (set of transactions related to the transfer of energy and power between countries). Tariffs in the generation business are dependent on market prices. Generators must either have a concession or a license to operate in the market and are a mix of private and state-private owned enterprises. While after the IRHE restructuring there were four generation companies, this number has since increased substantially to approximately 31 hydroelectric, 15, solar, 14 thermal and two wind power generation companies as of the date of this offering memorandum.

Distributors. These are the market participants who buy electricity at the wholesale level for their own consumption or that of their retail customers. The distribution market is operated by three distribution companies EDEMET, ENSA and EDECHI. They operate in an exclusive geographical area and are required to secure long-term contracts for all regulated customers and their associated energy demands. The three companies are public-private partnerships with the state holding ownership levels of 48%-49% and operating under a concession expiring in October 2028. Concessions have historically been awarded for 15-year terms. Tariffs for distributors are regulated by ASEP.

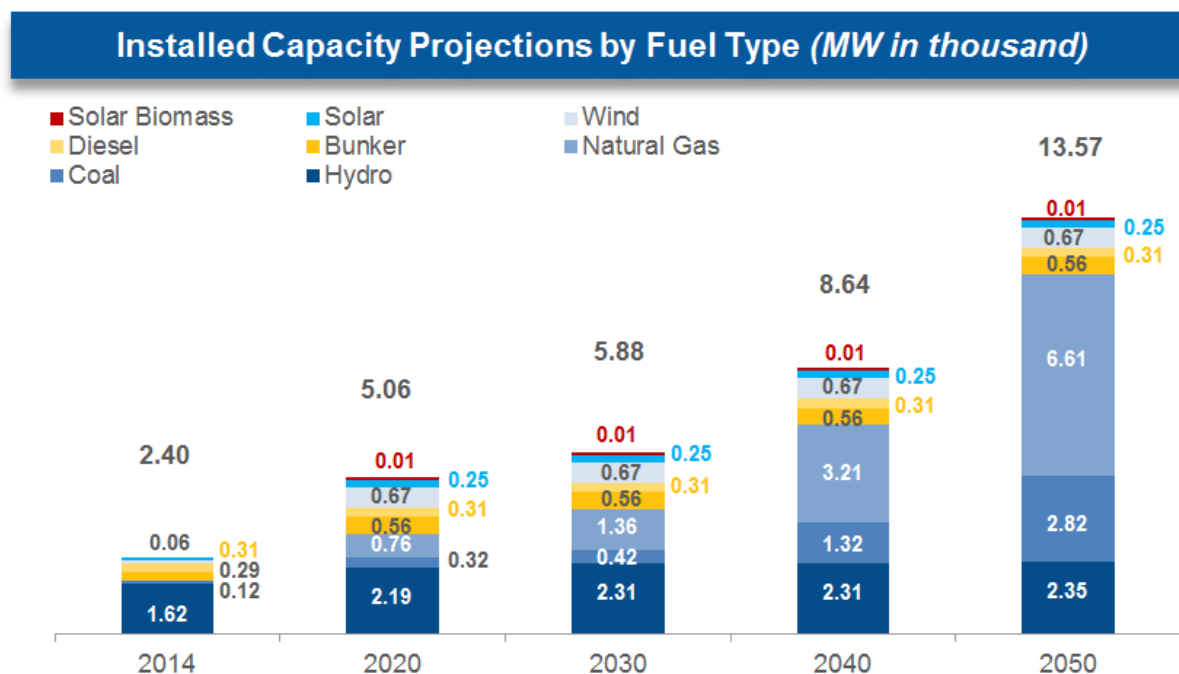
Transmission Companies. These market participants have a concession for the transmission of electricity. Currently, the only transmission company allowed to operate in the Panamanian electricity market through the ST is ETESA. However, market agents are able to construct, build, operate and maintain transmission lines and substations required for the connection of generation plants to the distribution system. Tariffs are regulated by ASEP based on a maximum permitted income and other components.

Large scale consumers. Those are the market participants who have energy requirements greater than 100Kw per site.

Installed Capacity

The total installed capacity in the Republic of Panama for the year 2018 was 3,849.25 MW, of which 45.99% (1,770.42 MW) corresponds to hydroelectric plants, 42.21% (1,624.72 MW) to thermal plants of different technologies, 7.02% (270 MW) to wind energy and 4.78% (184.11 MW) correspond to solar. As of December 2018, Panama had a total installed electric capacity of 3,849.25 MW, with another 300MW installed in February 2019.

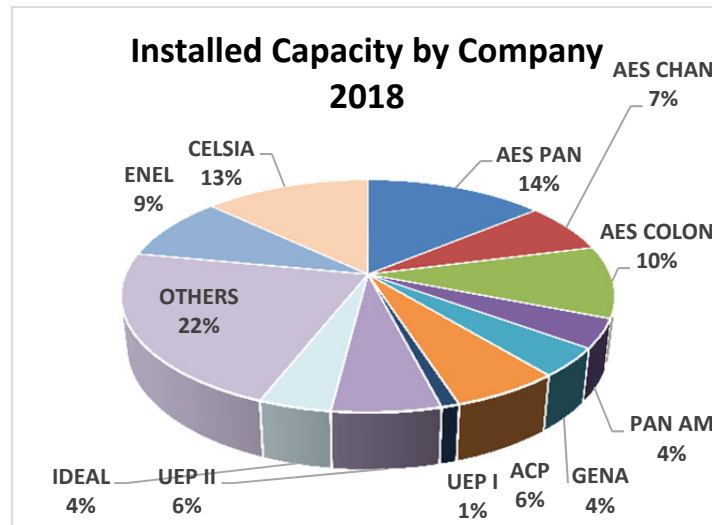
The *Plan Energetico Nacional 2015-2050*, published by the SNE, included the following installed capacity by type of generation projections. Such projections are prepared for planning purposes by the SNE. There is no assurance that such projections will in fact materialize and actual outcomes may be materially different:



Source: SNE

Installed capacity classified by producers for the year 2018.

The chart below provides the installed capacity by producing entity, the largest being AES Panama, representing approximately 14%, Celsia approximately 13%, AES Colon 10%, Enel approximately 9%, AES Changuinola approximately 7%, Union Eolica Penonomé II, S.A (“UEP”) 6%, the Panama Canal Authority (“ACP”) 6%.



Source: ETESA

Note: Figures may not total to 100% due to rounding.

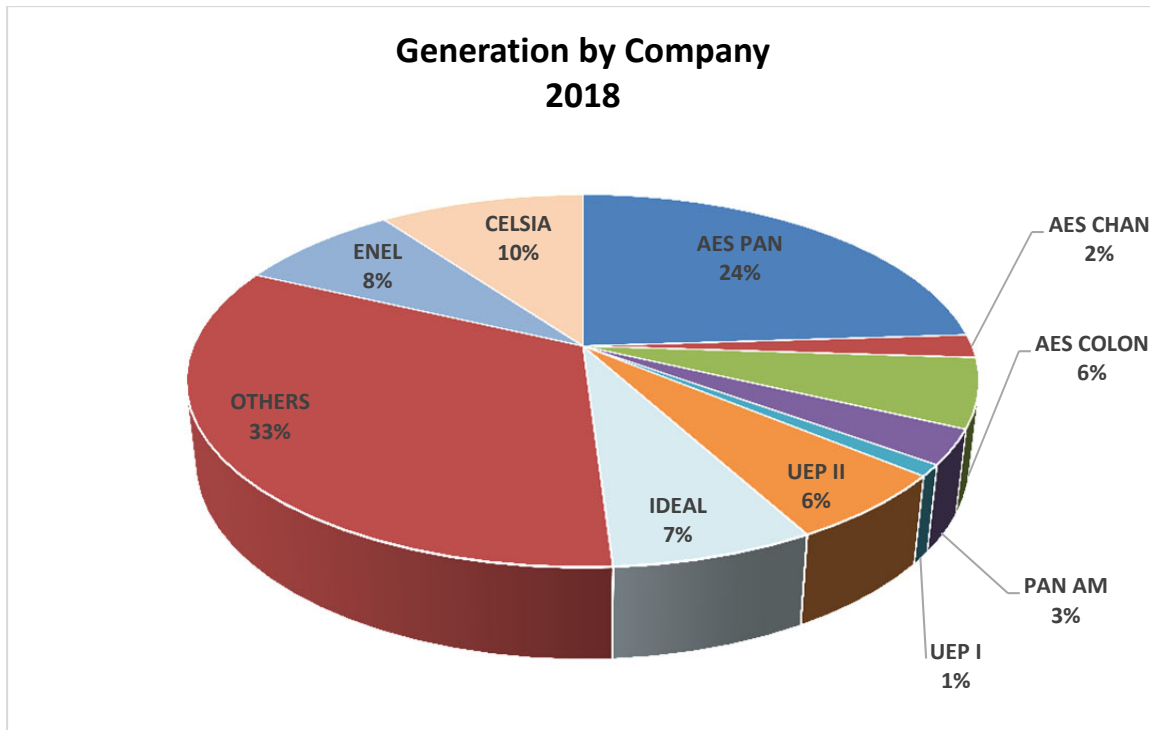
Generation

The total gross generation for 2018 in Panama was 10,783.5 GWh, including the national integrated system, which represent the total production of the self-generators and other isolated systems.

During 2018, electricity generation by plant type was 72% from hydroelectric generation plants, while thermal plants generated 21%. The wind power generation plants contributed 6%, while the solar plants, which first became operational in 2015, 2016 and 2017, contributed to 2% of the total generation of the system.

The chart below shows generation by company, the largest being AES Panama representing approximately 24%, Celsia with approximately 10%, ENEL with approximately 8%, IDEAL with approximately 7% and UEP II with approximately 6%.

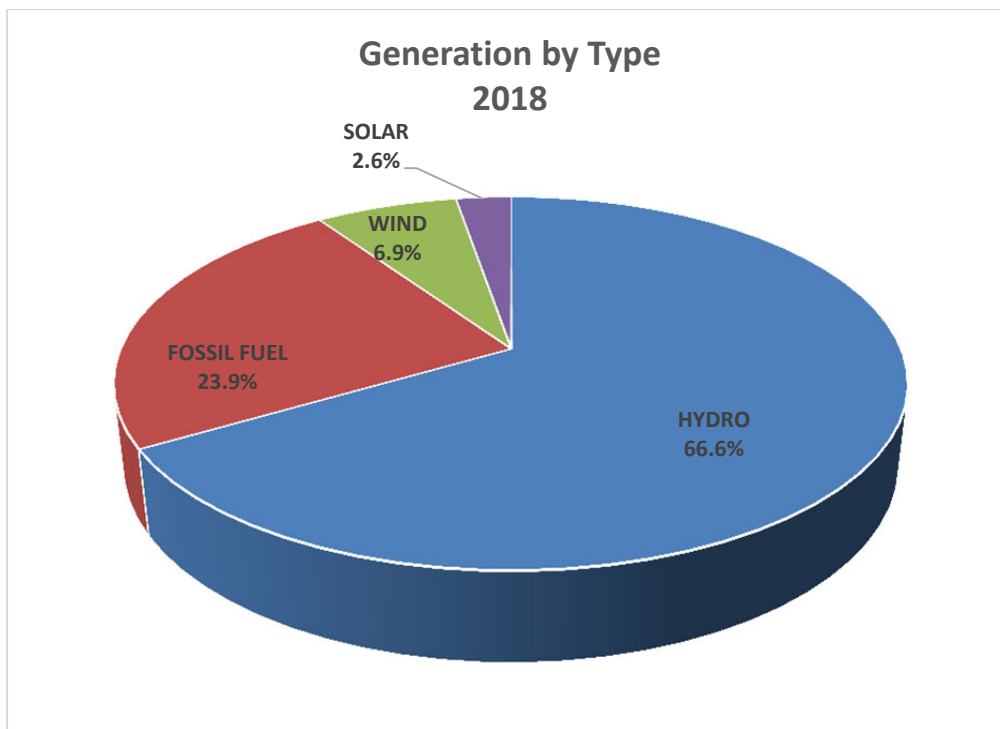
The chart below shows generation by company in 2018:



Source: ETESA

Note: Figures may not total to 100% due to rounding.

The chart below shows generation by type in 2018:



Source: ETESA

Note: Figures may not total to 100% due to rounding.

Transmission

The national transmission network is made up of the high voltage transmission lines, substations, transformers and other electrical elements necessary to receive the electric power produced by the generating plants and to transport it to the different delivery points. The length of the 230 kV lines of the system, in 2018, reached 3,088.10 km., while the length of the 115 kV lines is 306.90 km. Together they form a total of 3,395.00 km of line throughout the system.

Distribution

In Panama there are three companies that hold the concession to be the sole distributors in the electricity sector:

- ***Empresa de Distribución Eléctrica Metro Oeste, S.A. (“EDEMET”)***, has a concession area comprised of provinces of Veraguas, Coclé, Herrera, Los Santos, the province of Panama west of the Panama Canal, and the western part of the Panama City, including the Metropolitan Natural Park, the Camino de Cruces National Park, the Soberanía National Park, and the Cabuya River Agroforestry Farm. EDEMET has 15,404.71 kilometers of overhead lines and 2,392.51 kilometers of underground lines, totaling 17,797.22, which corresponds to 50% of the total distribution lines. EDEMET is 49% owned by the government of Panama and 51% owned by Naturgy Energy Group (rated Baa2 by Moody’s, BBB by Standard and Poor’s and BBB by Fitch Ratings).
- ***Elektra Noreste, S.A., (“ENSA”)***, has a concession area comprised of are between the provinces of Darién, Colón, the part of the province of Panama east of the Panama Canal (except the parts covered by the concession of EDEMET), the San Blas District and the Gulf of Panama Islands. ENSA has 10,521.01 km of overhead lines and 999.96 km of underground lines, for a total of 11,520.97 km, corresponding to 32% of the total distribution lines for 2017. ENSA is 48.25% owned by the government of Panama and 51.75% owned by Empresas Públicas de Medellín (rated Baa3 by Moody’s and BBB by Fitch Ratings).
- ***Empresa de Distribución Eléctrica Chiriquí, S.A. (“EDECHI”)***, has a concession area comprised of the provinces of Chiriquí and Bocas del Toro. In 2018, EDECHI owned 6,383.68 kilometers of overhead power lines and 177.73 km of underground power lines, for a total 6,561.41km of power lines, which represented 18% of the total distribution lines in 201. EDECHI is 49% owned by the government of Panama and 51% owned by Naturgy Energy Group.

In 2018, there were 1,104,137 customers serviced by the distribution system. There were 490,458 customers, or 44% customers, located in EDEMET’s concession area, 456,729, or 42% of customers, located in ENSA’s concession area and 156,950 customers, or 14% of customers, located in EDECHI’s concession area.

THE OFFERING

The information that follows is a summary of the terms and conditions of the offering and certain principal risk factors that should be considered in the context of the offering and is not intended to be complete. Potential investors in the notes should read this section together with all of the information presented in this offering memorandum, including, in particular, the section entitled “Risk Factors” in its entirety, before making their investment decisions and should also request clarification if they do not understand any term or condition, including the risk factors relating to this offering, as well as request clarifications if the investor does not understand any term or condition, including the risk factors of this offering. Capitalized terms used herein and not otherwise defined are defined as set forth under “Description of the Notes—Certain Definitions.” For a more detailed description of the terms of the notes, see “Description of the Notes.”

Issuer Empresa de Transmisión Eléctrica S.A.

Notes Offered U.S.\$ in aggregate principal amount of % Senior Notes due

Issue Price % of principal amount, plus accrued interest, if any from , 2019

Issue Date , 2019.

Maturity Date

Amortization Fully amortizing over years in accordance with the following schedule, commencing on , :

<u>Scheduled Payment Date</u>	<u>Percentage of Original Principal Amount Payable</u>
,	%
,	%
,	%
,	%
,	%
,	%
,	%
,	%
,	%

Interest The notes will bear interest from and including the issue date at the rate of % per year, payable semi-annually in arrears on and of each year, commencing on , 2019.

Ranking The notes will be senior unsecured obligations and will rank pari passu in right of payment with all of our existing and future unsecured and senior unsubordinated indebtedness (except those obligations preferred by operation of Panamanian law, including labor, social security and tax claims). The notes will not have the benefit of any credit support or other collateral security, and will be effectively subordinated to, any of our existing or future secured indebtedness to the extent of the value of the assets securing such indebtedness. In addition, the notes will be structurally subordinated to all existing and future unsecured and unsubordinated debt and other liabilities (including trade payables) of our subsidiaries, if any.

At December 31, 2018, after giving effect to this offering and the application of the estimated net proceeds therefrom as described under “Use of Proceeds,” our total Indebtedness would have been U.S.\$, U.S.\$ of which would have constituted secured Indebtedness.

Use of Proceeds We expect the gross proceeds of this offering to be U.S.\$. We

intend to use the proceeds from this offering, after deducting fees and commissions payable to the initial purchasers, to:

- fully repay the Citibank Facility (as defined below);
- fully repay the Caja de Ahorros Facility (as defined below).
- make a partial prepayment of the Banco Nacional Facility (as defined below); and
- fully repay the Cabei Facility (as defined below).

Additional Amounts

Subject to certain exceptions, any and all payments by us to or for the account of each holder (including any premium paid upon redemption or tender of the notes) shall be made free and clear of, and without any deduction or withholding regarding, any present or future Taxes (as defined below), unless the withholding or deduction of such taxes is required by applicable law. If we have the option to assume the obligation to pay withholding tax, such that no withholding or deduction would be required, we may do so. If we shall be required by law of any Taxing Jurisdiction (as defined below) to deduct or withhold any Taxes from or in respect of any sum payable under the notes then, (i) the sum payable to the holder of the notes shall be increased as necessary by an amount (which we refer to as an “additional amount”) so that after making all required deductions and withholdings for Taxes, the holder of the notes receives an amount equal to the sum it would have received had no such deductions or withholdings been made; (ii) we shall make such deductions or withholdings in accordance with applicable law; and (iii) we shall pay the full amount deducted or withheld to the applicable Taxing Jurisdiction in accordance with applicable law. See “Description of the Notes—Payment of Additional Amounts.”

Optional Redemption

We will have the right at our option to redeem the notes in whole or in part, at any time or from time to time prior to their maturity, on at least thirty (30) but not more than sixty (60) days’ notice to the holders, at a redemption price equal to the greater of (i) 100% of the principal amount of such notes and (ii) the sum of the present values of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus basis points, plus in each case accrued and unpaid interest on the principal amount of the notes to, but excluding, the date of redemption. See “Description of the Notes—Optional Redemption – Make-whole Redemption”

Redemption for Taxation Reasons

We may redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, upon the occurrence of specified events relating to tax law, all as described under “Description of the Notes – Optional Redemption for Taxation Reasons.”

Change of Control

If we experience a Change of Control, we must offer to repurchase the notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. See “Description of the Notes – Change of Control”.

Covenants

Under the terms of the notes and the Indenture, we will agree to observe certain covenants, such as limitations on the incurrence of certain liens, and limitations on sale and leaseback transactions for so long as the notes are outstanding. These covenants are subject to a number of important limitations and exceptions. See “Description of the Notes—Covenants.”

Events of Default

The Indenture governing the notes will set forth events of default applicable to the notes. For a discussion of certain events of default that will permit acceleration of the principal of the notes plus accrued interest, see “Description of the Notes—Events of Default.”

Aggregated Collective Action Clauses	The notes will be subject to certain provisions, which are described under “Description of the Notes—Meetings, Amendments and Waivers” in this offering memorandum, pursuant to which we may amend certain key terms of the notes, including the maturity date, interest rate, and other payment terms, without your consent.
Form and Denominations	<p>The notes will be issued in fully registered form without interest coupons and with a minimum denomination of U.S.\$200,000 and in multiples of U.S.\$1,000 in excess thereof.</p> <p>The notes may be sold only (i) to “qualified institutional buyers” in reliance on Rule 144A under the Securities Act and (ii) to certain “non-U.S. persons” in offshore transactions in reliance on Regulation S under the Securities Act. Notes sold to qualified institutional buyers in reliance on Rule 144A will be issued in the form of beneficial interests in one or more permanent global securities in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, DTC. Notes sold in offshore transactions in reliance on Regulation S will be issued in the form of beneficial interests in one or more permanent global securities in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, DTC.</p>
Listing	The Company will register the notes with the SMV and will maintain such registration, and will use commercially reasonable efforts to list the notes on the PSE, and if the notes are so listed then the Company will use commercially reasonable efforts to maintain such listing. If the Company is unable to maintain its listing having used all commercially reasonable efforts or if the maintenance of such listing is determined by the Company to be unduly burdensome or impractical, it will use commercially reasonable efforts to obtain and maintain a quotation or listing of the notes on such other stock exchange or exchanges or securities market or markets as the Company decides and will give notice of the identity of such other stock exchange or exchanges or securities market or markets to the trustee, which will provide notice thereof to each of the holders.
Transfer Restrictions; No Registration Right	<p>The notes have not been and will not be registered under the Securities Act or any state securities laws. The notes may not be offered or sold except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. See “Transfer Restrictions.”</p> <p>We will not be required to, nor do we intend to, register the notes and the guarantees for resale under the Securities Act or to offer to exchange the notes for notes registered under the Securities Act or the securities laws of any jurisdiction.</p>
Further Issues	Subject to the covenants in the Indenture, we may from time to time, without the consent of the holders of the notes, issue additional notes with terms and conditions identical to those of the notes (except that the issue date, issue price, first scheduled interest payment date, first principal payment date, CUSIP and other securities identifiers and temporary securities law transfer restrictions may be different). We will only be permitted to issue additional notes if, at the time of such issuance, we are in compliance with the covenants contained in the Indenture. Any additional notes will increase the aggregate principal amount of, and will be consolidated and form a single series with, the notes and will vote on all matters that require a vote, including, without limitation, waivers, amendments, redemptions and offers to purchase; <i>provided</i> that additional notes of the same series may be issued only if such issuance would be fungible with the notes for U.S. federal income tax purposes.
Security Codes	The notes will be assigned the following securities codes:

	Rule 144A:
	CUSIP:
	ISIN:
	Regulation S:
	CUSIP:
	ISIN:
Governing Law; Submission to Jurisdiction	The Indenture and the notes will be governed by New York law. We will submit to the non-exclusive jurisdiction of the United States federal and state courts located in the Borough of Manhattan in The City of New York, in respect of any action arising out of or based on the Indenture and the notes.
Ratings.....	On or prior to the date of issue of the notes, the notes will have been rated by .
Delivery	We expect that the delivery of the notes will be made to investors on or about
Panamanian Broker Dealer.....	BG Investment, Co. Inc.
Trustee, Registrar, Transfer Agent and Paying Agent	The Bank of New York Mellon
Risk Factors	<p>See “Risk Factors” in this offering memorandum for a discussion of certain relevant factors you should carefully consider before deciding to invest in the notes.</p> <p>Some of the risk factors include:</p> <ul style="list-style-type: none"> • The success of our business depends, in part, on factors beyond our control; • Our business and results of operations may be materially affected by changes in Panamanian power regulations; • The application of environmental standards and/or policies could adversely affect us; • Construction delays for our new power transmission facilities may substantially alter the total construction costs or cause us to have to pay <i>Generación Obligated</i> fees to other market participants or pay fines; • We face certain operating risks in our business; • Three of our transmission lines are in close proximity to each other for a substantial part of their transmission route, and it is possible that an event that disrupts transmission could affect all three lines at the same time; • Our dependence upon third parties may cause delays in development and construction, affect our profitability or lead to <i>Generación Obligated</i> fees; • We may encounter problems with our workers or the workers of our service providers, contractors or private investors that may affect our operations. • We may be obligated to pay <i>Generación Obligated</i> fees if certain capacity measurements are not met;

- The operation of our network could be disrupted as a result of events or actions beyond our control or due to differing requirements of facilities connected to our network;
- Our ability to operate effectively could be impaired if we lose key personnel or are unable to attract and retain skilled technical personnel;
- The expansion of our power transmission infrastructure subjects us to construction and other risks that may adversely affect our financial condition and results of operations;
- We depend on a concession by ASEP and provision under Law No. 6 in order to own and operate the SIN;
- Our insurance, guarantee and warranty coverage may not be adequate;
- We depend on information and processing systems to operate our business, the disruption or failure of which could adversely affect our financial condition and results of operations;
- We are subject to cybersecurity risks;
- The interests of our sole shareholder may conflict with those of the holders of the notes;
- Our business could suffer as a result of current or future litigation, disputes or administrative proceedings;
- We engage in related party transactions and given our ownership by the Republic of Panama we may in the future pursue agreements that are less favorable to us than they might otherwise be in an arm's length transaction;
- We are exposed to behaviors incompatible with our ethics and compliance standards;
- Infrastructure investments are subject to obsolescence risks;
- We are subject to financing risks, and we may have difficulty obtaining financing at cost-effective rates;
- We frequently open bid processes to award power purchase agreements to third party companies;
- While we hold title to our property, Panamanian law and regulation may encumber the ability of any purchaser to use those assets and thus the marketability of such assets;
- Our level of indebtedness may adversely affect our business, results of operations, financial condition and our ability to comply with our obligations under the notes;
- Panamanian political and economic conditions directly affect our business and the market price of the notes;
- Panama has different corporate disclosure than those you may be

familiar with in the United States;

- The Panamanian economy could be adversely affected by economic developments in Latin American and other emerging markets or global markets;
- The public auction at the Panama Stock Exchange will allow any investor to submit a bid for the notes and the bidder submitting the highest, and in case of equality the earliest, bid would have the right to purchase the notes. If a bidder different from the initial purchasers submits a higher or an equal but earlier bid, you will not receive the notes on the Issue Date as we will abstain from selling and the offering will be cancelled in consideration to the liabilities that the Issuer could face under the purchase agreement.
- The settlement conditions associated with the offering of the notes on the Panama Stock Exchange are complex, must be effected over the course of a short period of time on the Issue Date and depend to a significant degree on the cooperation of various public officials of the Republic of Panama, including the Comptroller General, who are not within our ability to control or direct. Any delays involving these Panamanian settlement conditions may cause correlative delays in respect of the settlement and delivery of the notes on the system of DTC, with the result that the actual settlement and delivery of the notes may not be completed on the Issue Date.
- Investors should consider the risks of selling the notes in the secondary market prior to the Issue Date as settlement is conditioned on the Initial Purchasers having the winning bid on the Panama Stock Exchange and even if the Initial Purchasers do have the winning bid, settlement delays may result in delivery to investors of notes on the business day following the intended settlement date.
- We have a history of negative working capital and it may affect our ability to repay the notes;
- Our payment obligations under the Notes are not guaranteed by our principal shareholders;
- Payments on the notes will be effectively subordinated to any of our secured debt obligations;
- The notes are subject to certain transfer restrictions;
- We do not currently have subsidiaries. If we were to have subsidiaries in the future, the notes will be effectively subordinated to the future liabilities of our subsidiaries to the extent of the assets of such subsidiaries;
- The notes are a new issue of securities for which there is currently no public market; you may be unable to sell your notes if a trading market for the notes does not develop;
- Holders of notes may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons;
- Panama is a sovereign state, and we are a wholly-owned subsidiary of

the Government; consequently, it may be difficult to enforce judgments against us;

- Changes in tax laws could lead to our redeeming the notes;
- The notes will contain provisions that allow us to amend the payment terms without the consent of all holders;
- The market value of the notes may be affected by developments in emerging markets other than Panama;
- Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time; and
- Our obligations under the notes will be subordinated to certain statutory liabilities.

SUMMARY SELECTED FINANCIAL AND OTHER DATA

The following summary financial information as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, is qualified in its entirety by reference to, should be read in conjunction with, and has been derived from our audited financial statements included elsewhere in this offering memorandum. Our audited financial statements and the summary financial information presented below are presented in U.S. dollars.

Profit or Loss Data

	For the year ended December 31,		
	2018	2017	2016
	(in thousands of U.S.\$)		
Transmission of energy	108,304	84,459	47,224
Connection	5,017	7,438	6,727
Integrated Operation	12,286	14,718	12,880
Total revenue from operations	125,607	106,615	66,831
Other Income	5,637	2,885	2,627
Transmission of energy cost	(30,338)	(56,998)	(26,429)
Connection cost	(147)	(127)	(164)
Integrated operation cost	(7,402)	(6,199)	(6,428)
Impairment on trade receivables	2	0	(829)
Depreciation and amortization	(28,886)	(23,446)	(15,189)
Amortization of right of way	(2,689)	(1,480)	(750)
General and administrative expenses	(10,686)	(11,016)	(12,776)
Results of the activities of Operation	51,099	10,233	6,894
Finance costs, net	(20,045)	(7,440)	(3,640)
Participation in the gain on investments in associated companies	1,804	781	862
Participation in the loss in joint ventures	(180)	(188)	(331)
Profit before income tax	32,677	3,386	3,784
Total Income tax	(3,981)	(2,764)	(1,444)
Net movement in balance of regulatory deferred activities accounts	(15,764)	0	0
Net Profit after the movement of net balances in the Regulatory deferral activities accounts	12,932	622	2,339

Balance sheet data

	At December 31,		
	2018	2017	2016
	(in thousands of U.S.\$)		
Cash and cash equivalents and restricted cash.....	19,469	26,702	10,539
Total current assets	116,007	66,717	49,223
Property, plant and equipment and improvement to the property, net of accumulated depreciation and amortization.....	582,228	523,548	263,665
Other non-current assets ¹	253,122	230,797	225,150
Total assets	951,356	821,062	511,037
Debtors balance on accounts of deferral regulated activities.....	23,378	37,968	0
Total assets and balances of deferred accounts of regulated activities	974,735	859,030	511,037
Total current liabilities	112,353	461,384	170,348
Total non-current liabilities.....	530,435	85,792	58,284
Total liabilities	642,788	547,176	228,632
Total equity	323,283	311,853	282,405
Total equity and liabilities	966,071	859,030	511,037
Creditors balance on accounts of deferral regulated activities.....	8,664	0	0
Total equity, liabilities and creditors balances payable from deferred accounts of regulated activities	974,735	859,030	511,037

¹Includes Investment in associates and joint ventures, buildings in process, right of way net, inventory of spare parts net, loan receivables associates, seniority premium payment and severance fund, guarantee deposits and other assets.

Summary Statement of Cash Flows:

	For the year ended December 31,		
	2018	2017	2016
	(in thousands of U.S.\$)		
Net cash provided by operating activities	(7,578)	80,900	36,605
Net cash used in investing activities	(102,401)	(53,283)	(65,392)
Net cash flows provided by (used in) financing activities	78,081	28,546	33,581

Non-IFRS information and other information:

	For the year ended December 31,		
	(in thousands of U.S.\$)		
	2018	2017	2016
EBITDA.....	68,533	35,751	23,360
Adjusted EBITDA	91,344	78,503	38,225
Debt.....	492,355	138,993	124,214
Debt to EBITDA	7.18	3.89	5.32
Debt to Adjusted EBITDA.....	5.39	1.77	3.25
EBITDA to Financial cost, Net.....	3.42	4.81	6.42
Adjusted EBITDA to Financial cost, Net	4.56	10.55	10.50

Adjusted EBITDA reconciliation:

	For the year ended December 31,		
	(in thousands of U.S.\$)		
	2018	2017	2016
Net Profit.....	12,932	622	2,339
Total income tax	3,981	2,764	1,445
Finance costs, net	20,045	7,440	3,640
Amortization of right of way	2,689	1,480	749
Depreciation and amortization	28,886	23,445	15,188
EBITDA	68,533	35,751	23,360
Net (Gain)/Loss from investments in associated companies	(1,623)	(594)	(530)
Net movement of net balances in the regulatory deferral activities account.....	15,764	0	0
Required generation fee (<i>Generación Obligada</i>).....	8,670	43,346	15,395
Adjusted EBITDA	91,344	78,503	38,225

RISK FACTORS

You should carefully consider the risks described below, together with the other information contained in this offering memorandum, before making your decision to invest in the notes. Any of the following risks, as well as other risks and uncertainties, could harm the value of the notes directly, or our business and financial results and thus indirectly cause the value of the notes to decline. The risks described below are not the only ones that could impact our company or the value of the notes. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition or results of operations. As a result of any of these risks, known or unknown, you may lose all or part of your investment in the notes.

Risks relating to us and the Panamanian Power Transmission Industry

The success of our business depends, in part, on factors beyond our control.

The success of our business is partly dependent on the actions of third parties and on factors beyond our control. The following factors, most of which are beyond our control, may unfavorably impact our business and results of operations:

- an increase in generation capacity and distribution demand may require us to pay *Generación Obligada* fees. See “Business — Transmission Services”;
- review and adjustment of our maximum permitted income and applicable tariff’s by our regulator, ASEP;
- control of our operating costs and expenses;
- changes in regulation and actions of regulatory bodies;
- increases of capital costs;
- any change to our status as the sole operator and owner of the SIN;
- our ability to build or expand our infrastructure within anticipated costs and in a timely manner;
- opposition to power infrastructure development for expansion projects, particularly in environmentally sensitive areas or in areas inhabited by indigenous populations;
- difficulties obtaining the necessary rights of way and easements for expansion projects;
- adverse general economic conditions;
- adverse future weather conditions, including El Niño weather phenomenon, and other natural disasters;
- relations with the communities in the areas where we operate or expect to develop power transmission facilities; and
- disruption of connections to generation companies, distribution companies and the SIEPAC may cause disruption in the SIN. See “—The operation of our network could be disrupted as a result of events or actions beyond our control or due to differing requirements of facilities connected to our network”;

These and other factors could materially adversely affect our cash flow, financial condition and results of operations and could impair our ability to make payments under the notes.

Our business and results of operations may be materially affected by changes in Panamanian power regulations.

We are subject to extensive regulation under the Law No. 6 of February 3, 1997 (“Law No. 6”), as amended, Executive Decree No. 22 of 1998 (“Executive Decree No. 22”) and the various regulations regarding transmission, purchase and operation promulgated by our primary regulator, ASEP, including the maximum permitted income we have and the related tariffs we may charge for our transmitting services approved by ASEP, which is subject to changes that may adversely affect our results of operations.

The application of environmental standards and/or policies could adversely affect us.

We are subject to environmental regulation standards that require, among other considerations, environmental impact studies for future projects and the receipt of corresponding environmental authorizations. There is no guarantee that these environmental impact studies will be approved by governmental authorities or that public opposition will not lead to delays or modifications of projects proposed, or that laws and regulations will not change or be interpreted in a way that could adversely affect our plans and operations.

We have made, and will continue to make, investments to maintain compliance with environmental laws. Failure to comply with environmental requirements can result in civil or criminal fines or sanctions, claims for environmental damages, remediation obligations, the revocation of environmental authorizations or the temporary or permanent closure of facilities. Panamanian environmental regulations have become increasingly stringent in recent years, especially in connection with the approval of new projects, and this trend is likely to continue. The environmental impact of new projects also attracts public interest and, therefore, may be subject to political and social considerations and litigation beyond our control. In the future, new or more stringent environmental requirements or changes in the application, interpretation or enforcement of existing requirements could result in substantially increased capital, operating or compliance costs, and could impose conditions that restrict or limit our operations. These changes could limit the availability of our funds for other purposes, which could adversely affect our business, results of operations and financial condition.

Construction delays for our new power transmission facilities may substantially alter the total construction costs or cause us to have to pay Generación Obligada fees to other market participants or pay fines.

The success of our expansion program and new transmission network projects will depend on several factors, including financing costs and availability. Although we have experience in large-scale construction projects, the construction of new facilities (including our planned fourth transmission line) could be jeopardized by factors commonly associated with such projects, including delays in regulatory authorizations (including in respect of obtaining rights of way and similar concessions or permits); equipment, material or labor shortages; price changes; adverse weather conditions; natural catastrophes; and accidents, unforeseen circumstances and difficulties in the approval of financing at reasonable rates. Additionally, projects that we undertake through a private investor basis, while having no recourse to us in terms of additional construction costs, could experience such delays.

One of the most substantial construction delays we experience is due to the fact that we are subject to the procurement procedure set forth in Law No. 22 of June 17, 2006 (“Law No. 22”) for purposes of contracting with third parties. The lengthy procurement process under the law is also subject to claims before the General Directorate for Public Contract, potentially causing further delays. See “Business—Legal Proceedings”. Such construction delays can cause additional strain in our transmission system especially when other external factors are also present and may cause disruption in the normal functioning of the system. One such example was the blackout experienced in 2017 where the delays in construction of expanded transmission capacity were exacerbated by extreme weather causing the blackout that lasted four hours and left 3.8 million people without electricity. Had the expanded capacity been available, it is likely that the blackout would not have been as severe.

Any delay adding capacity to our transmission network to meet generation capacity or distribution demand of the SIN, whether we are parties effecting the construction or not, may result in us having to pay additional *Generación Obligada* fees to distributors and generators due to shortfalls in providing transmission capacity and such may affect our financial condition and result of operations. In certain cases, such as in the blackout experienced in 2017, we can also be subject to fines by regulatory agencies. Any of the above factors could lead to delays in the partial or total completion of a capital investment project and also increase costs for projects we are considering undertaking or cause additional *Generación Obligada* fees or fines. These increases could have a material adverse effect on our financial condition and results of operations.

We face certain operating risks in our business.

We rely on rights of way (*servidumbres*), land acquisition and in certain cases the approval of affected indigenous and other communities, in areas where electric infrastructure is required to be built and must provide for the compensation of affected parties in the area. We are exposed to certain operating risks, including weather, explosions, pollution, releases of toxic substances, fires, geological risks, vandalism, theft, power transmission facility damage, labor accidents, equipment failures and other hazards. Any of these events could affect our business. Additionally, most of our transmission lines require substantial maintenance of our transmission lines in remote areas, such maintenance includes clearing vegetation under power lines, which can grow unpredictably and if not maintained can lead to disruptions and in our transmission system and blackouts. If we are unable to properly maintain the lines, there could be interruptions or inefficiencies in our transmission of electricity. Even though we seek to properly identify, prevent and control risks by means of our integrated management system and properly control risks in conformity with industry practices, there is no guarantee that these risks will not occur or occur in ways we have not anticipated. Further, although we have insurance coverage, such coverage is subject to limits in coverage, currently to \$25 million.

Three of our transmission lines are in close proximity to each other for a substantial part of their transmission route, and it is possible that an event that disrupts transmission could affect all three lines at the same time.

The first, second and third transmission lines run parallel to each other through a long extension of their transmission route from the west of the country to the Panama City region. It is possible that, upon the occurrence of an event that disrupts or damages one of the transmission lines, the other transmission lines may also be subject to disruptions or damage. Additionally, until the fourth line (which will use an alternate route) is completed, we may be unable to transmit electricity from the west of the country to the Panama City region if the other three lines are adversely affected at the same time.

Our dependence upon third parties may cause delays in development and construction, affect our profitability or lead to Generación Obligada fees.

We depend on contractors and suppliers to perform the construction of and to provide us with the supplies and equipment need to complete our transmission projects. If we are unable to hire qualified contractors or find qualified equipment manufacturers or suppliers and most of our material (such as copper, concrete and steel) needed to complete our construction projects, our ability to successfully complete such projects could be impaired or we could suffer delays, which could lead to *Generación Obligada* fees. If a supplier, manufacturer or contractor fails to provide supplies, equipment or services as required under a negotiated contract for any reason, we may be required to self-perform unexpected work or obtain these supplies, equipment or services on an expedited basis or at a higher price than anticipated from a substitute source, which could impact the cost of the project being undertaken, affecting our profitability.

We may encounter problems with our workers or the workers of our service providers, contractors or private investors that may affect our operations.

Approximately 95.4% of our workforce as of December 31, 2018, is covered by a collective bargaining agreement with The Union of Workers of Electrical and Related Industries of Panama (*Sindicato de Trabajadores de la Industria Eléctrica y Similares de La República de Panamá*, “SITIESPA”). Current labor relations are favorable and there have not been any strikes in recent years. Our current collective bargaining agreement has been in effect since 2015 and is currently in force. Although such agreement allows for the renegotiation of terms to commence on January 2019, as of the date of this offering memorandum, we have not yet engaged in active discussions, nor have received any solicitation, to renegotiate the collective bargaining agreement with SITIESPA. According to Panamanian laws, the *Comité Ejecutivo Nacional* of SITIESPA has the right to request the renegotiation of the referred collective bargaining agreement. We cannot assure that we won’t be required to renegotiate the terms of our existing collective bargaining agreement, nor that the results of any such renegotiations or the terms of any new collective bargaining agreement resulting from such renegotiations, will be substantially the same of our existing collective bargaining agreement with SITIESPA. The results of any such renegotiations, or the outcome of our discussions regarding the labor petitions still not agreed with SITIESPA regarding our existing

collective bargaining agreement, could have a material adverse effect on our business, financial condition and the result of our operations and expectations.

Delays, labor stoppages or other events related to the work force affecting us could have a material adverse effect on the business, financial condition and the result of our operations and expectations. We cannot assure you that labor relations will continue to be positive or that deterioration in labor relations will not materially and adversely affect our business, financial condition or results of operations. Further, we cannot assure you that in the future we will be able to successfully negotiate new contracts on favorable terms, or that the unions will not choose to implement an illegal strike, but we will work on maintaining our historically good labor relationships with our union groups.

We also rely heavily on key service providers and contractors. Additionally, the proposed fourth transmission line, which is key in order for us to meet increased generation capacity, will be undertaken with a private investor in a PPP structure and will represent a substantial amount of our transmitting capacity. A deterioration of labor relations between one or more of the contractors, service providers or private investor and their respective employees, including resulting in a work stoppage or strike, could materially affect our business, financial condition or results of operations. In addition, new regulations or changes in the existing labor laws may also adversely affect our business, financial condition and results of operations.

Pursuant to Panamanian labor laws and regulations we are subject to health and safety laws and regulations that govern, among other things, the health and safety of our contractors' employees that we have contracted. We are required to adopt certain measures to safeguard the health and safety of our employees, as well as those of third parties, at our facilities. If an adverse final decision or precautionary measures regarding the violation of any labor laws or regulations is issued in an administrative procedure against us, or against one of our service provide, contractors or, we may be held liable, or jointly liable, for any penalties and sanctions, which may include the payment of fines. In the case of health and safety labor laws, and depending on the severity of the infraction, penalties and sanctions may include temporarily limitations on access to our facilities.

We may be obligated to pay Generación Obligada fees if certain capacity measurements are not met.

We may be required to pay certain fees to generation and distribution market participants, referred to as *Generación Obligada* fees, if our ability to transmit electricity falls below generation capacity and if our transmission system experiences availability shortfalls.

Natural disasters, accidents or other unforeseen or force majeure events, such as fires, earthquakes, lightning, explosions, droughts or floods may disrupt the operation of our transmission lines, causing availability shortfalls, which in turn may also require us to pay *Generación Obligada* fees. For example in 2017 a tree collapsed onto one of our power transmission lines, reducing our transmission capacity.

Additionally, weather conditions can be an important factor in generation of hydroelectric power, with the increase of rain during the rainy season (May through December) causing excess capacity which may lead to *Generación Obligada* fees. See "Business—Transmission Services" for additional information on *Generación Obligada* fees. If we are required to pay such fees, this may adversely affect our business, financial condition and results of operations.

The operation of our network could be disrupted as a result of events or actions beyond our control or due to differing requirements of facilities connected to our network.

Our network operates through interconnections with distribution companies, generation companies and with the SIECAP, whose actions could have a negative impact on our operations. The systems put in place by distribution and generation operators may not always be adequate to prevent problems at other utilities from causing service interruptions in our network. If any generation system or distribution system interconnected with us were to suffer such a service interruption, thus such interruptions could lead to us having fines imposed on us by our primary regulator and for *Generación Obligada* fees have a negative impact on our business, financial condition, results of operations and ability to make payments under the notes.

Given our lack of control over the equipment maintained and controlled by the operators of other facilities, no assurance can be given that not result in service disruptions or that material and/or lengthy operational problems

or failure may occur. Any such operational problems may have a materially adverse impact on our cash flows, financial condition and results of operations and, as a result, could impair our ability to make payments under the notes.

Our ability to operate effectively could be impaired if we lose key personnel or are unable to attract and retain skilled technical personnel.

Our business depends upon the continued efforts, abilities and expertise of our officers and directors, as well as our other key employees and our specialized technical personnel. We believe that the unique combination of skills and experience possessed by our officers, directors, other key employees and specialized technical personnel would be difficult to replace, and that the loss of our officers, directors and key employees or specialized technical personnel could have a material adverse effect on our company, including the impairment of our ability to execute our business strategy. There is no assurance that such individuals will continue to be employed by us or that we will be able to attract and retain qualified personnel in the future.

The expansion of our power transmission infrastructure subjects us to construction and other risks that may adversely affect our financial condition and results of operations.

We may expand the capacity of our existing power transmission business by constructing additional facilities and/or expanding existing infrastructure. Construction of these facilities and/or expanding existing infrastructure is subject to various regulatory, developmental and operational risks, including:

- the requirement that the relevant expansion plan be approved by ASEP;
- the requirement that all necessary regional regulatory approvals, permits and local authorizations be received on a timely basis and/or on terms that are acceptable to us;
- potential changes to national and regional statutes and regulations, including environmental requirements that prevent a project from proceeding, increase the anticipated cost of an expansion project or delay its implementation;
- difficulties to our ability to acquire rights-of-way, easements or land rights on a timely basis or within anticipated costs;
- the ability to construct projects within anticipated costs, including the risk that we may incur cost overruns resulting from inflation or increased costs of equipment, materials, labor, or other factors beyond our control, that may be material;
- the possibility that delays in construction projects could cause us to pay *Generación Obligada* fees.
- the possibility that regional authorities could impose fines or penalties related to the construction of additional facilities or the expansion of existing facilities or temporarily suspend such construction or expansion;
- adverse decisions of governmental agencies with respect to any future tariff review or adjustment applicable to us; and
- potential criminal activity at our construction sites.

Any of these risks could prevent a project from proceeding, delay its completion or increase its anticipated costs. Additionally, we may also depend on third parties to build and operate such projects for us. One such example, is the fourth transmission line. The private investor who wins the bid may also experience these risks. Such investor may also not be able to acquire additional financing to cover costs associated with these risks. As a result, new facilities and/or expansion of existing infrastructure, including the fourth transmission line may be delayed or not achieve expected investment return, which could adversely affect our financial condition or results of operations and impair our ability to make payments under the notes.

The expansion of our infrastructure will be conditioned on obtaining the necessary permits, licenses and rights of way, which, together with other real property rights, may be challenged.

Our ability to engage in any expansion project will be subject to, among other things, numerous businesses, economic, regulatory, competitive and political uncertainties beyond our control. Therefore, we cannot assure you that any expansion or extension project will be undertaken or, if undertaken, will be successful. The success of any expansion project may depend on, among others, the following factors:

- we may not get approval from our regulator ASEP for our development plan;
- we could fail to attract the sufficient local and indigenous community support to develop and operate both new and existing facilities;
- we may get sued by bidders to our projects that may delay or increase the costs associated with a project ; and
- we may be unable to obtain the requisite environmental and regulatory permits and approvals.

We may also require additional capital to fund any expansion project. If we fail to generate sufficient funds in the future, we may have to delay or abandon potential expansion projects, which could subject us to *Generación Obligada* fees. Also, a potential expansion may cost more than planned to complete and such excess cost may not be recoverable. Our inability to recover any such costs or expenditures may affect our ability to make payments under the notes. In addition, significant portions of our facilities are located on property over or through which we have acquired rights pursuant to mandatory easements and other types of agreements. Any successful challenge to such rights may adversely affect our operations and, as a result, our ability to make payments under the notes.

Although we have the right to obtain easements and rights of way and believe that all easements and rights of way were obtained and entered into in material compliance with applicable laws, legal challenges may be brought with respect to the form of documenting such rights of way with the relevant registries, or with respect to the content or priority of such rights, or with our compliance with the terms of such easements and agreements, or to claim compensation for damages caused to private property. Any such legal challenge may have an impact on our cash flows, financial condition and results of operation and could impair our ability to make payments under the notes.

Our insurance, guarantee and warranty coverage may not be adequate.

We currently maintain customary insurance of the types and amounts that are generally consistent with industry practice and applicable legal requirements. See “Business—Insurance.” There can be no assurance that such insurance coverage will continue to be available on commercially reasonable terms or at commercially reasonable rates or that the amounts for which we are insured, or that the proceeds of such insurance, will compensate us fully for our losses. In the event there is a total or partial loss of our assets, any insurance proceeds that we may receive in respect thereof may not be sufficient in any particular situation to effect a restoration of such assets to their previous condition. Furthermore, we are subject to a liability limit of \$25 million per occurrence, further limiting our ability to replace a total or partial loss of our assets.

In the event of a total or partial loss of our main assets, certain items of equipment may not be easily replaced because they are not insured or may be excessively expensive or so system specific that they are not readily available. Accordingly, notwithstanding that we may have insurance, guarantee or warranty coverage, the location of our assets or limitations on our ability to procure replacement equipment may give rise to significant delays in replacement and thereby cause service interruption which could have a material adverse effect on our cash flows, financial condition and results of operations and could impair our ability to make payments under the notes.

We depend on a concession by ASEP and provision under Law No. 6 in order to own and operate the SIN.

We are dependent on a concession by ASEP that runs until 2024 and provision under the law in order to own and operate the SIN. We have already commenced the process of extending our concession and expect to receive ASEP’s preliminary approval to extend our concession beyond 2024. In the past the Republic of Panama has restructured the electricity sector and there can be no assurances that it will not do so again in the future. Should the

Republic of Panama decide to restructure the system and amend Law No. 6 or should ASEP not provide us with a renewed concession it could have a material adverse effect our cash flows, financial condition and results of operations and could impair our ability to make payments under the notes.

We depend on information and processing systems to operate our business, the disruption or failure of which could adversely affect our financial condition and results of operations.

Information and processing systems are vital to our ability to monitor the operation and performance of our power transmission assets, to generate adequate invoices to customers, achieve operating efficiencies and meet service targets and standards.

Any disruption or failure of any of these information and processing systems to operate properly could have a material adverse effect on our financial condition and results of operations and, as a result, could impair our ability to make payments under the notes. Non-scheduled and non-justified disruptions could be subject to administrative fines by our regulators.

We are subject to cybersecurity risks.

Information and processing systems are vital to us and our ability to monitor the operation and performance of our transmission network, achieve operating efficiencies and meet service targets and standards. We are subject to cybersecurity risks including unauthorized access to privileged information, technological assaults on our infrastructure aimed at stealing information, fraud or interference with regular service and interruption of our services resulting from the exploitation of these vulnerabilities. Any failure to anticipate, identify or offset such threats of potential cyberattacks or breaches of our security in a timely manner could materially and adversely affect our operations, results of operations and financial condition. Non-scheduled and non-justified disruptions could also be subject to administrative fines by our regulators.

The interests of our sole shareholder may conflict with those of the holders of the notes.

The Republic of Panama, our sole shareholder, has the power to elect all of our directors and officers, and thereby may direct our policies and operations, including the appointment of management, future issuances of our common stock or other securities, the payments of dividends on our common stock, the incurrence of debt by us and the amendments to our organizational documents, and their interests may not in all cases be aligned with your interests as a holder of notes. Additionally, the Republic of Panama has the power to amend the law providing for our monopoly and has the ability not to renew our concession. In the past, the Republic of Panama has undertaken major changes to the electricity sector, including the formation of ETESA. It may do so again in the future, including by restructuring ETESA so that it is not a going concern, or taking away our monopoly over transmission services in the Republic. In addition, a presidential election is scheduled in Panama for May 5, 2019, and we cannot assure you that any future administration will not adopt policies and actions which could adversely affect our results of operations or financial condition. The Republic of Panama's interests are also substantially different than other typical shareholders in private companies, since its primary concern our operations is the functioning of the electricity sector and its service to its citizens. Our sole shareholder thus may have an interest in pursuing transactions or regulatory actions that, in its judgment, could enhance the transmission sector, even though such transactions might involve risks to you.

Our business could suffer as a result of current or future litigation, disputes or administrative proceedings.

We are currently involved in material litigation and may be in the future be subject to legal or administrative proceeding or disputes, including with third parties, related parties and/or the Panamanian Authorities. See "Business—Legal Proceedings". It is inherently difficult to assess the outcome of litigation or disputes, and there can be no assurance that we will prevail in any such litigation or dispute or reach agreement without expense, on a timely basis or at all. Additionally, we could become the subject of administrative proceedings or investigations by the Panamanian authorities. Any such litigation, dispute, administrative proceedings or investigation could result in a substantial cost and diversion of management efforts, which could independently have a material adverse effect on our financial condition and operating results. Further, any adverse determinations or negotiated settlements could subject us to significant liabilities to third parties, any of which could materially adversely affect our business, financial condition or results of operations.

We engage in related party transactions and given our ownership by the Republic of Panama we may in the future pursue agreements that are less favorable to us than they might otherwise be in an arm's length transaction.

We are wholly-owned by the Republic of Panama and often engage in transactions with parties that are partially or wholly-owned by the Republic, including with distributors and generators. While these transactions are done in either an arm's length basis or under the purview of laws and regulations that would be applicable to non-government owned parties, there can be no assurances given that in the future the Republic of Panama may not through the appointment of our board of directors or through law and regulation mandate changes that could result in agreements that may be less favorable to us than an arm's length transactions.

We are exposed to behaviors incompatible with our ethics and compliance standards.

Given the large number of contracts that we are a party to with our suppliers and other counterparties, the geographic distribution of our operations and the great variety of actors that we interact with in the course of our business, we are subject to the risk that our employees, contractors, or any person having relations with us may misappropriate our assets, manipulate our assets or information or engage in money laundering or the financing of terrorism, for such person's personal or business advantage. Our systems for identifying and monitoring these risks may not be effective to fully mitigate them in all situations. Such acts may result in material financial losses or reputational harm to us.

Infrastructure investments are subject to obsolescence risks.

Infrastructure assets are subject to obsolescence risks that could occur as a result of changing supply and demand, new types of construction and new technologies. In any such event, there might be few alternative uses for our investments, and our investments might drop in value. If we are unable to adapt our infrastructure to meet the requirements of changing supply and demand and new developments in technology and construction, our business, financial condition and result of operations may be materially adversely affected.

We are subject to financing risks, and we may have difficulty obtaining financing at cost-effective rates.

Our future success depends on our ability to access capital markets and obtain financing at cost effective rates. This is dependent on a number of factors, many of which we cannot control, including changes in:

- our credit ratings;
- interest rates;
- condition of local and international financial markets;
- market perceptions of us or the power transmission industry;
- tax rates due to new tax laws or changes to existing tax laws; and
- foreign exchange and investment controls and restrictions.

Our financial condition and liquidity could be adversely affected if there is a negative movement in any of these factors.

We frequently open bid processes to award power purchase agreements to third party companies.

We frequently open bid processes to award power purchase agreements to third party companies. In the past, losing bidders have filed complaints and lawsuits against us challenging the bid and procurement process. These claims, in certain instances, amount to large sums of money and are comparable to the lifetime income of what a winning bidder would have received. If a losing bidder is able to obtain a decision or an award against us we

would be obligated to pay large sums of money in damages. This in turn could have an adverse effect on our financial condition.

While we hold title to our property, Panamanian law and regulation may encumber the ability of any purchaser to use those assets and thus the marketability of such assets.

While we hold title to our property, certain assets such as the transmission lines and the real property associated with it are subject to Panamanian law and regulation, including the requirement that an operator of such assets have a concession provided by ASEP. Such regulatory encumbrances on our property could make it difficult, if not impossible, to sell our property and even if such a sale were to occur, would likely affect any compensation we receive for such property. Additionally, real property that we own is subject to rights of ways which are not easily released and which may be connected to the operation and maintenance of the ST, further being subject to Panamanian law and regulation. Such rights of ways may adversely affect the value of the real property to which rights are granted and may make it difficult for us to sell such property. Additionally, as owners and operators of the ST, we are the beneficiaries of several rights of way imposed over third party properties. Such rights of way cannot be sold without the purchaser acquiring a transmission concession and the ST cannot be operated without such rights of ways.

Our level of indebtedness may adversely affect our business, results of operations, financial condition and our ability to comply with our obligations under the notes.

Our outstanding indebtedness as of December 31, 2018, was U.S.\$492 million. In addition, we will be able to incur substantial additional indebtedness in the future as the Indenture contains no restrictions on our or any of our future subsidiaries' ability to incur additional indebtedness. See "Description of the notes." If new indebtedness is added to our current levels of indebtedness, the related risks we could face would be magnified.

Specifically, a high level of indebtedness could have one or more of the following consequences:

- make it more difficult for us to satisfy our obligations with respect to the notes;
- require us to dedicate a substantial portion of our cash flows from operations to payments on our debt, which would reduce the funds available for working capital, significant capital expenditures, acquisitions and other general corporate purposes;
- increase our vulnerability to general adverse economic conditions; and
- limit our ability to borrow additional funds and increase the cost of any such borrowing.

Financial Leverage. If we issue all of our bonds under this Offering Memorandum, our financial leverage, in terms of total liabilities in total paid capital will be 1.99x.

Return on Assets. Our return on assets was 1.33% in 2018, 0.07% in 2017 and 0.45% in 2016. Our financial position might be impacted by the financial costs of debts with related parties, which makes the return on assets relatively low.

Return on Equity. We might present losses and negative equity impacted by the financial costs of debts with related parties. These negative results, could negatively affect the repayment of the notes.

Liabilities. A high level of indebtedness may adversely affect our financial condition and our ability to repay our notes.

There can be no assurance that we will not incur substantial additional debt in the future.

Risks Relating to Panama

Panamanian political and economic conditions directly affect our business and the market price of the notes.

Our business, results of operations and financial condition depend, to a considerable extent, upon the generation capacity of the SIN and such is dependent on the economic conditions in Panama. Future adverse developments in the Panamanian economy could thus adversely affect our business, results of operations and financial condition and may impair our ability to proceed with our strategic plan of business. In addition, such developments may negatively affect the market price of the notes.

The Panamanian government has modified in the past and has the ability to modify monetary, fiscal, tax and other policies to influence the Panamanian economy. We have no control over government policies and cannot predict how those policies or government intervention will affect the Panamanian economy or, directly and indirectly, our business, results of operations and financial condition. There will be a general election in Panama on May 5, 2019. Changes in policies involving exchange controls, taxation and other matters related to our sector may adversely affect our business, results of operations and financial condition and the market price of the notes.

Panama has different corporate disclosure than those you may be familiar with in the United States.

Our securities disclosure requirements in Panama differs in certain significant respects from those required in the United States. Accordingly, the information about us available to you will not be the same as the information available to holders of notes issued by a U.S. company and listed in a U.S. exchange. In addition, although Panamanian law imposes restrictions on insider trading and price manipulation, applicable Panamanian laws are different from those in the United States, and the Panamanian securities markets are not as highly regulated and supervised as the U.S. securities markets.

The Panamanian economy could be adversely affected by economic developments in Latin American and other emerging markets or global markets.

All of our business operations and assets are located in Panama. Our results of operations and financial condition are sensitive to, and dependent upon, the level of generation capacity in the transmission system, which is dependent on economic activity in Panama. Developments in other emerging markets, particularly in Latin America, may adversely affect the market for our securities and the availability of foreign capital in Panama. We cannot predict whether events in other markets will adversely affect the price of, or market for, our securities. Unfavorable general economic conditions, including the financial crisis that affected the global banking system and financial markets, caused a decrease in the amount of foreign capital invested in emerging markets, including Panama and Latin America. Further, significant concerns regarding the sovereign debt of numerous countries have developed recently and required some of these countries to seek emergency financing. Because international investors' reactions to the events occurring in one market sometimes affect other regions or disfavor certain investments, the Panamanian economy could be adversely affected by negative economic or financial developments in other countries. We cannot assure you that negative developments in Latin America or other emerging markets or in developed economies will not occur or that such negative developments would not adversely affect the securities markets in which our securities trade or affect our access to sources of financing. We cannot assure you that the Panamanian economy will continue to grow in the future or that future developments in or affecting the Panamanian economy, including further consequences of economic difficulties in Brazil, Argentina, Central America and other emerging markets or in the financial markets of developed economies, will not impair our ability to proceed with our business plan or materially adversely affect our business, financial condition or results of operations.

Risks Related to the Notes and this Offering

The public auction at the Panama Stock Exchange will allow any investor to submit a bid for the notes and the bidder submitting the highest, and in case of equality the earliest, bid would have the right to purchase the notes. If a bidder different from the initial purchasers submits a higher or an equal but earlier bid, you will not receive the notes on the Issue Date as we will abstain from selling and the offering will be cancelled in consideration to the liabilities that the Issuer could face under the purchase agreement.

The offering of the notes on the Panama Stock Exchange on the Issue Date will be conducted pursuant to a

public auction process whereby parties other than the initial purchasers may also lodge bids for the full principal amount of the offering at prices other than the offer price set forth on the cover of this offering memorandum. Consequently, settlement of the notes pursuant to the terms set forth in this offering memorandum will be conditioned upon, among other factors, the initial purchasers' success in securing the highest (and in case of equality, earliest) bid on the Panama Stock Exchange for the notes as part of such public auction process. If, as a part of such public auction process, a party other than the initial purchasers were either to lodge a bid for the notes at a higher price than the price contained in the initial purchasers' bid and reflected on the cover of this offering memorandum, or if such other party placed an equivalently priced bid for the notes earlier in time than the bid submitted by the initial purchasers, we will immediately withdraw and cancel the offering of notes with the effect that the initial purchasers would be unable to purchase the notes for subsequent resale to you. Consequently, for the foregoing reasons, we are unable to assure you that you will ultimately be able to receive notes on the Issue Date. See "Plan of Distribution—Description of the Public Auction Process" for more information.

The settlement conditions associated with the offering of the notes on the Panama Stock Exchange are complex, must be effected over the course of a short period of time on the Issue Date and depend to a significant degree on the cooperation of various public officials of the Republic of Panama, including the Comptroller General, who are not within our ability to control or direct. Any delays involving these Panamanian settlement conditions may cause correlative delays in respect of the settlement and delivery of the notes on the system of DTC, with the result that the actual settlement and delivery of the notes may not be completed on the Issue Date.

A number of conditions precedent involving the cooperation of parties that are not within our control or direction must be met in order for the offering of the notes to occur on the Panama Stock Exchange on the Issue Date as described in this offering memorandum. Among other things, in order for settlement of the offering of the notes to occur in a timely fashion on the Issue Date, we will depend on actions at the Panama Stock Exchange and the cooperation of various public officials of the Republic of Panama, who must countersign (*refrendar*) a number of key documents in order for such documents to be valid and binding. In addition, completing the Panamanian settlement mechanics and thereafter settling the offering of notes on DTC's system must occur before DTC's settlement cut-off time, which means that a number of tasks (some involving entities beyond our control as noted above) must be completed during a relatively short time on the Issue Date. Any delays in satisfying any of the conditions precedent to settlement of the offering may prevent us from timely initiating the required international settlement procedures in respect of DTC on the Issue Date. If the bonds are deposited in DTC after its cut-off time on the Issue Date, investors may not receive bonds in their accounts at DTC until the following business day at DTC. See "Plan of Distribution—Description of the Public Auction Process" for more information.

Investors should consider the risks of selling the notes in the secondary market prior to the Issue Date as settlement is conditioned on the Initial Purchasers having the winning bid on the Panama Stock Exchange and even if the Initial Purchasers do have the winning bid, settlement delays may result in delivery to investors of notes on the business day following the intended settlement date.

If, as a part of the public auction process in Panama, a party other than the initial purchasers were either to lodge a bid for the notes at a higher price than the offer price contained in the initial purchasers' bid and reflected on the cover of this offering memorandum, or if such other party placed an equivalently priced bid for the notes earlier in time than the bid submitted by the initial purchasers, we will immediately withdraw and cancel the offering of notes. If the offering is cancelled, it would not be possible to complete settlement of any secondary market trades. Additionally, any delay in settlement as described above could cause complications for investors that conducted trades in respect of the notes in the secondary market if such trades are scheduled to settle prior to the time that they receive notes in their account.

We have a history of negative working capital and it may affect our ability to repay the notes.

We are subject to substantial working capital requirements and we recently experienced two consecutive years of negative working capital. Our working capital for 2018, 2017 and 2016 was U.S.\$1.4 million, U.S.\$(394.7) million and U.S.\$(121.1) million, respectively. There is no assurance that we will generate the necessary net income or operating cash flows to meet our working capital requirements and pay our debts as they become due in the future due to a variety of factors, including other factors discussed in this "Risk Factors" section. There can be no assurance, that we will be able to successfully take any actions, including successfully constructing our planned fourth transmission line in a sufficient or in a timely manner to raise our working capital. Our inability to take

corrective actions to increase our working capital as and when necessary would materially adversely affect our ability to repay the notes.

Our payment obligations under the Notes are not guaranteed by our principal shareholders.

Our principal shareholder has not and will not guarantee our obligations under the notes. You will not have any claim with respect to our obligations under the notes against our sole shareholder. Thus, if we are unable to pay amounts due under the notes, you will not be able to recover such amounts from our shareholder or any of its affiliates.

Payments on the notes will be effectively subordinated to any of our secured debt obligations.

We do not currently have secured debt. The notes will be our unsecured unsubordinated obligations and will rank equal in right of payment with all our other existing and future unsecured unsubordinated indebtedness. If we were to incur secured debt in the future, the payment of principal and interest on the notes will be effectively subordinated in right of payment upon our bankruptcy to all such future secured indebtedness. If we become insolvent or are liquidated, or if payment in respect of our secured indebtedness is accelerated, our secured lenders will be entitled to exercise the remedies available to a secured lender under applicable law, in addition to any remedies that may be available under the financing arrangements relating to that secured indebtedness, and we cannot assure you that there will be sufficient assets remaining to pay amounts due on the notes. As a result, you may receive less, ratably, than the lenders of any future secured indebtedness.

We do not currently have subsidiaries. If we were to have subsidiaries in the future, the notes will be effectively subordinated to the future liabilities of our subsidiaries to the extent of the assets of such subsidiaries.

We do not currently have subsidiaries. If we were to have subsidiaries in the future, the notes will be effectively subordinated to all future liabilities of such subsidiaries. Therefore, our rights and the rights of our creditors to participate in the assets of any such subsidiary in the event that such a subsidiary is liquidated or reorganized are subject to the prior claims of such subsidiary's creditors. As a result, all indebtedness and other liabilities, including trade payables, of the subsidiaries, whether secured or unsecured, must be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us in order for us to meet our obligations with respect to the notes. To the extent that we may be a creditor with recognized claims against any subsidiary, our claims would still be subject to the prior claims of such subsidiary's creditors to the extent that they are secured or senior.

The notes are subject to certain transfer restrictions.

The notes are being offered in reliance on an exemption from registration under the Securities Act. Therefore, the notes may be transferred or resold only in a transaction registered under or exempt from the registration requirements of the Securities Act and in compliance with any other applicable securities law. See "Transfer Restrictions."

The notes are a new issue of securities for which there is currently no public market; you may be unable to sell your notes if a trading market for the notes does not develop.

The notes have not been registered with the U.S. Securities and Exchange Commission and are being offered and sold only to qualified institutional buyers within the meaning of Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons under Regulation S under the Securities Act. The notes will constitute a new issue of securities with no established trading market and will be subject to the restrictions on transfer described under "Transfer Restrictions." If a trading market does not develop or is not maintained, holders of the notes may experience difficulty in reselling the notes or may be unable to sell them at all.

We cannot assure you that an active trading market for the notes will develop or, if a market develops, we cannot guarantee the liquidity of the market. The liquidity of any market for the notes will depend on the number of holders of the notes, the interest of securities dealers in making a market in the notes and other factors. If an active trading market does not develop, the market price and liquidity of the notes may be materially and adversely affected. If the notes are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities,

general economic conditions, our performance and business prospects and other factors.

Holders of notes may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

We are organized under the laws of Panama and our principal office is located in Panama. Most of our directors, officers and controlling persons reside outside the United States. In addition, all or a substantial portion of our assets are located outside the United States. As a result, it may be difficult for holders of notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Panama, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws. See “Enforcement of Civil Liabilities.”

Panama is a sovereign state, and we are wholly-owned by the Republic of Panama; consequently, it may be difficult to enforce judgments against us.

Panama is a sovereign state, and we are wholly-owned by the Republic of Panama. Consequently, it may be difficult to enforce judgments of courts in the United States or elsewhere against us. No treaty currently exists between the United States and Panama providing for the reciprocal enforcement of foreign judgments.

Under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in the United States a judgment against us. In addition, under the laws of Panama, attachment or other form of execution before or after judgment on our property and revenues may be difficult. See “Enforcement of Civil Liabilities.”

As a wholly owned entity of the Republic of Panama, even though not expressly stated in the law, Panamanian courts may grant us the privileges that our procedural law grants to the State through Articles 1047, 1048, 1650 (14) and 1939 of the Judicial Code of Panama. These benefits would be applicable in the event actions are taken through Panamanian courts. Said articles state the following:

Article 1047 of the Judicial Code of Panama provides that the decision regarding the payment of awards against the State is made by the State itself, when a series of steps and proceedings are established without a specific consequence within the execution proceeding, in the event that the condemnation imposed on the State is not honored.

Article 1650 (#14) of the Judicial Code of Panama sets forth that the assets that belong to the State, municipalities, autonomous or semi-autonomous state entities cannot be subject to attachment.

Article 1939 of the Judicial Code of Panama sets forth, among other things that no cautionary measure can be taken against Panama and municipalities, with the exception of those relative to enforcement. See “*Enforcement of Civil Liabilities.*”

Article 1048 of the Judicial Code of Panama states that if after three years from the validation of the foreign judgment by the Supreme Court of Panama, we have not satisfied the court judgement, you may request the Supreme Court of Panama to instruct the National Bank of Panama (*Banco Nacional de Panama* or “BNP”) to make available for payment of the court judgement any moneys that we may have in our accounts with the BNP, if any.

In addition, pursuant to Article 4 of Panama Law No. 26 dated January 29, 1996, as amended, and due to our status as a concession recipient in Panama’s energy sector, creditors and other plaintiffs may not have access to certain pre-judgement measures that would otherwise be available in Panamanian courts under normal circumstances, such as the right to request an attachment or *embargo* or other precautionary measure, in order for the court to grant such plaintiff control of our operations for the duration of any proceeding instituted against us.

Changes in tax laws could lead to our redeeming the notes at par.

We may redeem the notes at par prior to maturity if a change in Panamanian or other tax laws results in our becoming liable to compensate noteholders for certain withholding and other taxes. See

“Description of the Notes— Redemption for Taxation Reasons” and “Taxation—Panamanian Taxation.”

The notes will contain provisions that allow us to amend the payment terms without the consent of all holders.

The notes will contain provisions regarding voting on amendments, modifications and waivers which are commonly referred to as “collective action clauses.” Under these provisions, certain key terms of the notes may be amended without the unanimous consent of the noteholders, including, among others, the amount of, timing of or priority of payments to noteholders and premium payable upon redemption of the notes. See “*Description of the Notes—Meetings, Amendments and Waivers*.” In particular, the relevant provisions also permit, in relation to reserved matters, multiple series of debt securities under the Indenture to be aggregated for voting purposes, and amendments, modifications or waivers which affect two or more series may allow the amendment, modification or waiver of such key terms with either, at the option of the Issuer, the consent of 75% of the aggregate principal amount of the outstanding debt securities of all the series under the Indenture affected by such proposed amendment, modification or waiver, without requiring a particular percentage of the holders in any individual affected series of debt securities to vote in favour of any proposed modification or action or with the consent of both (i) more than 66 2/3 % of the aggregate principal amount of the outstanding debt securities of all the series under the Indenture affected by such proposed amendment, modification or waiver and (ii) more than 50% of the aggregate principal amount of each affected series. As a result, a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of debt securities in all the relevant aggregated series, including the notes.

The market value of the notes may be affected by developments in emerging markets other than Panama.

The market value of securities of other Panamanian companies has, to varying degrees, been affected by economic and market conditions in other Latin American countries and emerging market economies in other parts of the world. Although economic conditions in such countries may differ significantly from economic conditions in Panama, investors’ reactions to developments in any of these other countries may have a material adverse effect on the market value of the notes.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the notes. A credit rating is not a recommendation to buy, sell or hold securities.

Our obligations under the notes will be subordinated to certain statutory liabilities.

Under Panamanian insolvency laws, the obligations under the notes are subordinated to certain statutory preferences. In the event of our insolvency or moratorium, such statutory preferences may be applicable, and certain claims, including claims for salaries, wages, secured obligations, social security, taxes and court fees and expenses, will have preference over any other claims, including claims by any investor in respect of the notes.

USE OF PROCEEDS

We expect the gross proceeds of this offering to be U.S.\$. We intend to use the proceeds from this offering, after deducting fees and commissions payable to the initial purchasers, to:

- fully repay a U.S.\$400 million loan with Citibank N.A as initial lender and administrative agent (the “Citibank Facility”), which matures on 2021, and accrues interest at a rate of 3 month LIBOR plus 2.25% per annum. The proceeds of the Citibank Facility were used for the repayment of outstanding debt and other general corporate purposes;
- fully repay our U.S.\$24 million credit facility with Caja de Ahorros (the “Caja de Ahorros Facility”) which matures on 2028, and accrues interest at a rate of 6 month LIBOR plus 4% per annum, with a minimum annual interest rate of 5.5%;
- make a partial repayment of up to U.S.\$26 million of our U.S.\$30 million credit facility with *Banco Nacional* (the “Banco Nacional Facility”) which matures on 2020, and accrues interest at a rate of 6 month LIBOR plus 2% per annum, with a minimum annual interest rate of 3%; and
- fully repay our U.S.\$50 million credit facility with *Central American Bank for Economic Integration* (the “CABEI Facility”) which matures on 2020, and accrues interest at a rate of 6 month LIBOR plus 1.75% per annum.

For additional information on the facilities which we plan to repay with the proceeds of the offering, see “Description of Other Indebtedness”.

EXCHANGE RATE INFORMATION

Since 1904, the Republic of Panama has fixed its local currency, the Balboa, to the U.S. dollar, which is also recognized legal tender in the Republic of Panama. The Balboa/U.S. dollar exchange rate has been fixed at B/.1.00 to U.S.\$1.00 since the Balboa was first introduced in 1904, and has always circulated alongside U.S. dollars in the Republic of Panama. Other than coins with a value of B/. 1.00 or less, there are no circulating Balboa bills.

Currency conversions contained in this offering memorandum should not be construed as representations that Balboas have been, could have been or could be converted into U.S. dollars at the indicated or any other rate of exchange.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of December 31, 2018 on an actual basis and as adjusted to reflect the notes offered hereby and the application of the net proceeds therefrom as described under “Use of Proceeds.”

The following table should be read in conjunction with “Use of Proceeds,” “Selected Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our financial statements and the related notes included in this offering memorandum:

	As of December 31, 2018	
	Actual	As Adjusted
	(in thousands of U.S.\$)	
Cash and cash equivalents and restricted cash	<u>19,468</u>	<u>19,468</u>
Indebtedness:		
Short term debt ¹	8,423	
Long-term loans ²	483,932	
Notes offered hereby	-	
Other liabilities	150,433	145,964
Total liabilities	642,788	
Total equity	323,283	323,283
Total Capitalization		

¹. Includes current portion of the loan agreements described under “Description of other Indebtedness”. Proceeds will be used to partially repay our U.S.\$24 million credit facility with Caja de Ahorros. See “Use of Proceeds”.

². Includes long-term portion of the loan agreements described under “Description of other Indebtedness”. Proceeds will be used to fully repay a U.S.\$400 million loan with Citibank N.A.. See “Use of Proceeds”.

SELECTED FINANCIAL AND OTHER DATA

The following summary financial information as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, is qualified in its entirety by reference to, should be read in conjunction with, and has been derived from our audited financial statements included elsewhere in this offering memorandum. Our audited financial statements and the summary financial information presented below are presented in U.S. dollars.

Profit or Loss Data

	For the year ended December 31,		
	2018	2017	2016
	(in thousands of U.S.\$)		
Transmission of energy	108,304	84,459	47,224
Connection	5,017	7,438	6,727
Integrated Operation	12,286	14,718	12,880
Total revenue from operations	125,607	106,615	66,831
Other Income	5,637	2,885	2,627
Transmission of energy cost	(30,338)	(56,998)	(26,429)
Connection cost	(147)	(127)	(164)
Integrated Operation cost	(7,402)	(6,199)	(6,428)
Impairment on trade receivables	2	0	(829)
Depreciation and amortization	(28,886)	(23,446)	(15,189)
Amortization of right of way	(2,689)	(1,480)	(750)
General and administrative expenses	(10,686)	(11,016)	(12,776)
Results of the activities of Operation	51,099	10,233	6,894
Finance costs, net	(20,045)	(7,440)	(3,640)
Participation in the gain on investments in associated companies	1,804	781	862
Participation in the loss investment in joint ventures	(180)	(188)	(331)
Profit before income tax	32,677	3,386	3,784
Total Income tax	(3,981)	(2,764)	(1,445)
Net movement in balance of regulatory deferred activities accounts	(15,764)	0	0
Net Profit after the movement of net balances in the regulatory deferral activities accounts	12,932	622	2,339

Balance sheet data

	At December 31,		
	2018	2017	2016
	(in thousands of U.S.\$)		
Cash and cash equivalents and restricted cash.....	19,469	26,702	10,539
Total current assets	116,007	66,717	49,223
Property, plant and equipment and improvement to the property, net of accumulated depreciation and amortization.....	582,228	523,548	263,665
Other non-current assets ¹	253,122	230,797	225,150
Total assets	951,356	821,062	511,037
Debtors balance on accounts of deferral regulated activities.....	23,378	37,968	0
Total assets and balances of deferred accounts of regulated activities	974,735	859,030	511,037
Total current liabilities.....	112,353	461,384	170,348
Total non-current liabilities.....	530,435	85,792	58,284
Total liabilities	642,788	547,176	228,632
Total equity.....	323,283	311,853	282,405
Total equity and liabilities.....	966,071	859,030	511,037
Creditors balance on accounts of deferral regulated activities...	8,664	0	0
Total equity, liabilities and creditors balances payable from deferral accounts of regulated activities	974,735	859,030	511,037

¹Includes investment in associates and joint ventures, buildings in process, right of way net, inventory of spare parts net, loan receivables associates, seniority premium payment and severance fund, guarantee deposits and other assets.

Summary Statement of Cash Flows:

	For the year ended December 31,		
	2018	2017	2016
	(in thousands of U.S.\$)		
Net cash provided by operating activities.....	(7,578)	80,900	36,605
Net cash used in investing activities.....	(102,401)	(53,283)	(65,392)
Net cash flows provided by (used in) financing activities.....	78,081	28,546	33,581

Non-IFRS information and other information:

	For the year ended December 31,		
	(in thousands of U.S.\$)		
	2018	2017	2016
EBITDA.....	68,533	35,751	23,360
Adjusted EBITDA.....	91,344	78,503	38,225
Debt.....	492,355	138,993	124,214
Debt to EBITDA.....	7.18	3.89	5.32
Debt to Adjusted EBITDA.....	5.39	1.77	3.25
EBITDA to Financial cost, Net.....	3.42	4.81	6.42
Adjusted EBITDA to Financial cost, Net.....	4.56	10.55	10.50

Adjusted EBITDA reconciliation:

	For the year ended December 31,		
	(in thousands of U.S.\$)		
	2018	2017	2016
Net Profit.....	12,932	622	2,339
Total income tax	3,981	2,764	1,445
Finance costs, net	20,045	7,440	3,640
Amortization of right of way	2,689	1,480	749
Depreciation and amortization	28,886	23,445	15,188
EBITDA	68,533	35,751	23,360
Net (Gain)/Loss from investments in associated companies	(1,623)	(594)	(530)
Net movement of net balances in the regulatory deferral activities account.....	15,764	0	0
Required generation fee (<i>Generación Obligada</i>).....	8,670	43,346	15,395
Adjusted EBITDA	91,344	78,503	38,225

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on our financial statements and should be read in conjunction with the financial statements and the notes thereto included elsewhere in this offering memorandum, as well as the data set forth in "Summary Selected Financial and Other Data" and "Selected Financial and Other Data." Our financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 (our "audited financial statements") contained in this offering memorandum have been prepared in accordance with International Financing Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

Our Financial statements are expressed in Balboas (B/.), the official monetary unit of Panama. The Balboa is freely exchangeable for the U.S. dollar on a one-to-one basis. Panama does not issue paper currency; instead it uses the U.S. dollar as its legal tenders. For ease of reference, all amounts discussed herein are expressed in U.S. dollars (U.S.\$). The lawful currency of the United States of America.

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and the matters set forth elsewhere in this offering memorandum. For additional information regarding forward-looking statements, see "Cautionary Note Regarding Forward-Looking Statements."

Overview

We are a 100% state-owned electricity transmission company, with a legal monopoly on the transmission, dispatch and control of electricity, and responsibility for demand planning for electricity generation in the Republic of Panama. Our revenues do not depend on the energy that is transported through the system (*i.e.* no volume risk), but are a function of the Company's productive assets. We are a public service company of economic importance and has an extremely supportive and transparent regulation, which directly affects the transmission tariff that changes every four years.

According to Law No. 6, transmission tariff should be enough to cover capital expenditures, operation and maintenance, administration and depreciation expenses. For the actual tariff period, (2017-2021) applicable rates are as follows: 7.76% (7.0% based on a fixed return, 2.96% based on 30YR UST bond and +/- 2.0% as discretionary spread) over net productive assets, 2.43% over replacement value of assets, 0.93% over replacement value of assets and 3.50% over gross assets, respectively covering all mentioned expenses. Interest payment for debt service is the only non-covered expense under the tariff. Nevertheless, interest expenses paid during construction periods are capitalized as additional value to a respective asset, thus generating additional tariff income for the related portion.

As of December 31, 2018, our portfolio of assets consists of U.S.\$954 million total assets with more than 3,000 km of transmission lines operating at 230kV and over 300km of transmission lines operating at 115kV, that in conjunction with substations and other assets and equipment provide the public service within the country and allow us to sell excess energy generated to the Central American region.

During 2018, we invested U.S.\$79.6 million in productive assets, mainly focused on projects to improve transmission efficiency. We therefore reduced *Generación Obligada* fees, from U.S.\$43.3 million in 2017 to U.S.\$8.7 million in 2018.

Having a transparent and regulated tariff regime allows us to forecast more efficiently our financial needs, which historically has been used only for capital expenditures, as we believe that all other expenses (such as those relating to operation & maintenance ("O&M"), depreciation and administration) are covered by tariff components.

As the tariff is driven by our asset base, our mandate is always to execute our investment plan in accordance with the expansion plan. This plan is revised every year and includes all investment projects that we are required to execute in the short, medium and long term, with the first four years being legally mandated. Once the plan is approved by the regulator and the projects in the plan enter into operation, we are entitled to receive tariff increases according to the effective tariff regime.

Historically, our challenges have related to administrative issues, such as the obligation to comply with public sector laws and regulations, that other private sector companies do not have to comply with, which limit our ability to navigate and rapidly react to unexpected events. One particular challenge is complying with the requirements of the law governing all public procurement (Law No. 22 of 2006), which makes our procurement efforts more cumbersome than those of our peers. As a result, we have focused our efforts in strengthening our procurement team with qualified professionals with public sector experience. These enhancements to our procurement team have allowed us to execute the highest yearly capital expenditures budget in the last ten years.

Because of these limitations in the procurement process, ETESA has accumulated delays in our capital expenditure program which led us to exceed our leverage targets during the last two years and has negatively affected our working capital. Our working capital for 2018, 2017 and 2016 was U.S.\$1.4 million, U.S.\$(394.7) million and U.S.\$(121.1) million, respectively. See “Risk Factors—Risks Related to the Notes and this Offering—We have a history of negative working capital and it may affect our ability to repay the notes.” In order to attempt to correct this situation, our latest approved version of the expansion plan contains a yearly estimation of our capital expenditures for the next 10 years averaging U.S.\$93.9 million.

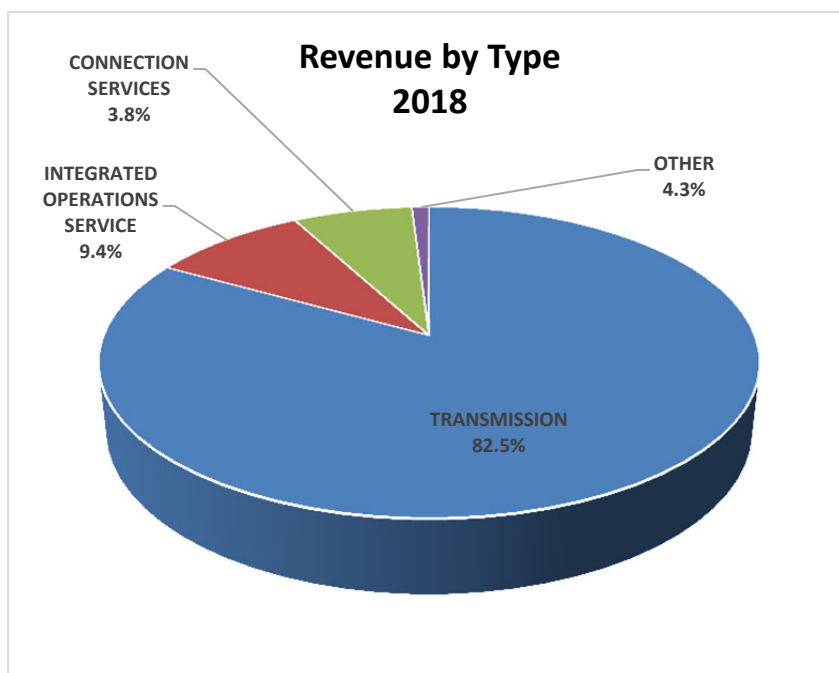
Factors Affecting Our Results of Operations

Operating Revenues

All of our operating revenues are regulated by ASEP and are individually detailed in the maximum permitted income as the maximum tariff by source that we are able to charge and collect from market agents during each four-year tariff period. The maximum permitted income details all projected maximum income assigned to existing assets and to new assets. The regulator decides the extent to which each type of asset will assign a specific tariff charge to distributors and/or generators. For a new asset to generate its respective income tariff, it previously has to be approved by ASEP in our expansion plan.

We have three main sources of operating revenues: electricity transmission revenues, connection services revenues and integrated operation services revenues. Non-operating income includes, but is not limited to, charges for the use of ETESA’s optical fiber throughout the transmission system and sales of non-productive assets. Total non-operating income averaged 4% during the last three years as a percentage of total revenues.

The table graph below shows operating and non-operating revenues by type:



Transmission Revenue

Our electricity transmission services involve transmitting electricity from electricity generators to the consumers of the transmission network, which primarily are the three distributors that hold concessions for distribution of electricity. These distributors are EDEMET (49% owned by the Government of Panama, and a subsidiary of Naturgy Energy Group (rated Baa2 by Moody's, BBB by Standard & Poor's and BBB by Fitch Ratings), ENSA (48.25% owned by the Government of Panama), a subsidiary of *Empresas Públicas de Medellín* (rated Baa3 by Moody's and BBB by Fitch Ratings) and EDECHI (49% owned by the Government of Panama), a subsidiary of Naturgy Energy Group.

The transmission services revenue distribution for the year ended December 31, 2018, 2017, 2016 is described in the table below.

Transmission Revenue Distribution	For the year ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Empresa de Distribución Eléctrica Metro Oeste, S. A (EDEMET)	29%	22%	37%
Elektra Noreste, S.A. (ENSA)	28%	19%	27%
Empresa de Distribución Eléctrica de Chiriquí, S. A. EDECHI)	5%	4%	4%

Source: ASEP

Note: Percentages correspond to percentages of total revenues

Our transmission system is composed of high voltage power lines, substations, transformers and other transmission components necessary to transmit the energy from the generation companies to the different delivery

points such as the distribution companies, international grids and large-scale consumers (those who have requirements greater than 100 Kw per site). As of December 31, 2018, the system consisted of 3,088.10 km of 230kV power lines and 306.90 km of 115 kV power lines.

We operate in a highly regulated environment. The Panamanian regulatory framework includes two main participants, the ASEP and the SNE. ASEP is an autonomous agency of the Panamanian Government tasked with overseeing, regulating and organizing the supply of public services throughout Panama. ASEP regulates private and government own companies that provide clean water, sewage, electricity telecommunications, radio, television and natural gas services. The SNE is an agency within the executive branch of government reporting directly to the Office of the President. The SNE is tasked, among other things, to guarantee the supply of energy throughout Panama, promote efficient energy use, promote renewable sources of energy and mitigate climate change.

Transmission revenues are determined within the maximum permitted income every four years, and are charged and collected from all electricity market agents (generators, distributors and large customers). Transmission income is regulated by ASEP through the Transmission Rules (*Reglamento de Transmisión*) whose main objectives are, among others:

- Establishing the type of installations that are part of the ST and the SIN, as well as to define the criteria to classify such installations as part of the main ST or the connection system.
- Establishing the criteria and formulas for the tariff calculation that determines the maximum permitted income and the tariff paid by all the users of Transmission Network.

The Charges for the Use of the Main Transmission System (*Cargos por Uso del Sistema Principal de Transmisión*, "CUSPT") reflect the costs assigned to each user for the use of the SIN, with the level of reliability required in the rules according to the evaluation made for the tariff period.

The CUSPT will be applied according to ten different tariff zones, established in the transmission regulations. These resulting charges in Balboas per MWh are applied once the month is over, to the real energy dispatched by the generators and to the real energy purchased by the demand, as appropriate.

All charges are invoiced at the end of each month according to the rules set forth in Article 190 of the transmission regulations. These charges are published by ETESA on its website.

The regulator usually approves our yearly tariff adjustments during the second quarter of our fiscal year. Once we receive such approval, we implement the updated tariff in our systems during the month of June and invoice transmission services to our clients thereafter in an adjusted amount which allows us to apply the new tariff retroactively in respect of the previously invoiced periods. Because our invoices are issued approximately 45 days after the end of each calendar month, we typically experience an increase in revenues during the second half of the year, with the largest portion of the increase concentrated in our fourth fiscal quarter.

Factors Affecting the Levels of Transmission Income

The main factors affecting the levels of transmission income from period to period include our primary regulator's review and adjustment of our maximum permitted income and applicable tariff. The regulator's review corresponding to tariff period 2017-2021 was approved in April 20, 2018 and is valid retroactively from July 1, 2017 until June 30, 2021. Even though a new tariff should have been approved in July 2017, such delay did not affect our capital expenditures program nor financial results. The late review was caused because of an update of the tariff rules that will avoid such situations to occur in the future. Construction delays for our new power transmission assets in order to meet generation capacity and demand of the SIN and avoid required *Generación Obligada* fees.

Integrated Operations Services Revenue

Integrated operation services are those provided by our CND and Hydromet divisions. The revenues received in connection with integrated operation services is on the basis of a different tariff than the one used for transmission and connection services. The tariff is meant to cover the costs of administration and operation of these services, but it is not intended to provide for any profitability for ETESA.

The CND is an agency of ETESA, which coordinates the operations and transactions that take place among the participants of the electricity wholesale market. The CND has operational autonomy and independence, while still reporting to ETESA's General Manager. Panama's electricity is sold via two types of markets: the first is the contractual market in which electricity is either sold through power purchase agreements with distributors that are sold through auctions and the second is to large unregulated power consumers or other generators by means of private agreements. Additionally, electricity is also sold through a spot market.

Hydromet is an agency of ETESA, tasked with operating and maintaining the meteorological and hydrological observation network, that allows to obtain the information, process it and put it at disposition of all sectors, to obtain sustainable development of the natural resources in Panama. It also helps to guarantee the security and protection of human lives, the environment, the organized development of agriculture, the hydric resources, electric energy, marine resources, aerial and maritime navigation, ground transportation, construction, industry, health, recreational activities, tourism and the climate and hydrological characterization of the country's regions.

CND Income – Contractual Transmission Revenue (Additional Systems)

The costs of investment and operation of the CND derive from the Charge for the Integrated Operation Service ("SOI") approved by ASEP in each tariff period and are included in tolls collected by ETESA. The present Tariff Regime goes from July 2017 to June 2021.

For what corresponds to the plan of operation, ASEP determines International Comparative Companies with proven efficient administrative management and thus fixes the operating expenses of the CND, including number of personnel and average salary, to attend the Operation of the National Interconnected System and Manage the Market Electricity wholesaler.

In connection with the investment plan, the CND proposes to ASEP the investments that the CND considers necessary for operational efficiency during the following five years, based on: (i) a study that justifies the investment with the indication of the date of purchase and operation, (ii) the estimated costs and their justification through a comparison with market costs ("benchmarking") and (iii) an estimation of the benefits that will be obtained and risks that will be mitigated as a result of the incorporation of the investment. The investment must be associated to one or more processes performed by the CND.

Annually, the CND must deliver to ASEP a report on the status of execution of the approved operation and investment plan. If the execution by the CND is less than what was approved by ASEP, ASEP proceeds to discount the shortfall amount from the CND's income for the following tariff year. Within this annual review, if the CND considers that it is necessary to reconsider an investment project (whether to include a new one or to eliminate a portion thereof), it can present such proposal to ASEP, which will ultimately decide whether to accept such proposal. This is also applicable to the approved operating expense plan.

Hydromet Services

Other income includes the income we receive from the provision of hydrometeorology and hydrology services at a national level in the Republic of Panama. As such, we are responsible for liaising with the national meteorological services of neighboring countries and for coordinating notifications of extreme weather events with the National Civil Protection System.

Hydromet is responsible for processing and analyzing all the information generated in the network of meteorological stations in the country, in order to plan, coordinate and project national meteorology research, as well as research relating to the inventory, quality and use of the country's water resources by preparing hydrological forecasts that contribute to the long and short term operation of the reservoirs that serve the country's hydroelectric power plants.

Hydromet is also responsible for the construction, maintenance and operation of the national network of meteorological and hydrological stations. These stations are responsible for carrying out measurements of the levels

of surface and groundwater, operating the national telemetry of hydrological variables system and for measuring the flows and sediments of the national rivers.

The costs of investment and operation of the Hydrometeorology Department are satisfied from the SOI approved by ASEP in each tariff period and are included in tolls collected by ETESA. The present Tariff Regime goes from July 2017 to June 2021.

Connection Services Revenue

The connection charges we collect from our customers are determined by the costs of the assets which are needed to comply with the level of reliability required by local regulations in order to connect each client to the main transmission system, when such assets are not owned by the user.

These charges are calculated on the basis of the different types of connection assets, made available by ETESA and will be paid by the users, according to the typical equipment used and is part of the same tariff approved by ASEP for transmission services in each tariff period. However, when determining the amount to be paid to ETESA, included as a components are the calculated connection asset charge and the investment and wage costs in connection with providing the connection assets only (as opposed to the entire ST). These revenues generated by the tariff are not meant to provide us with profit, but rather to primarily cover the cost of operating and maintaining the assets used with regards to connection services.

Expenses by Nature

Our expenses by nature are detailed in Note 29 of our audited financial statements included elsewhere in this offering memorandum. Our operating expenses are sub-divided into transmission of energy costs, connection costs, integrated operation costs, general and administrative expenses, depreciation and amortization, amortization of right of way.

Transmission of Energy Cost

Transmission of energy costs consist of, among other things, salaries and benefits of full-time employees assigned to the transmission division, *Generación Obligated* fees, repair and maintenance costs, operational services, material and supplies and provisions for litigation.

Connection Cost

Connection costs consist of, among other things, salaries and benefits of full time employees assigned to the connection division and other general expenses exclusively associated with this service.

Integrated Operation Cost

Integrated Operation costs consist of, among other things, salaries and benefits of full time employees assigned to the CDN and the Hydromet, repair and maintenance costs, operational services, material and supplies, and commercial and financial services.

General and Administrative Expenses

General Administrative expenses consist of overhead costs that are not directly related to our operations. The principal factor affecting administrative expenses are labor costs, which are mostly driven by headcount and inflation and contractors.

Depreciation and Amortization Expenses

Depreciation and amortization expense includes depreciation of property, plant and equipment comprising the ETESA Transmission Network, including transmission lines and other equipment.

Amortization of Right of Way Expenses

Amortization of right of way expense includes the amortization of the right of ways where the main transmission lines reside.

Finance cost, net

Finance cost, net includes interest expense and interest income from our long-term debt, related party loans and bond issuances.

Income Tax

Our income tax allowance consists of estimated current income tax and deferred income tax for the relevant period.

Results of Operations for 2018, 2017 and 2016

Results of Operations for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017 and December 31, 2016

The following table shows our results of operations for the years ended December 31, 2018, 2017 and 2016 (in thousands of U.S. dollars):

	<u>2018</u>	<u>%of total revenue</u>	<u>2017</u>	<u>%of total revenue</u>	<u>2016</u>	<u>%of total revenue</u>
	(In thousands of USD)					
Revenue from operations						
Transmission of energy	108,304	82.5%	84,459	77.1%	47,224	68.0%
Connection	5,017	3.8%	7,438	6.8%	6,727	9.7%
Integrated Operation	12,285	9.4%	14,719	13.4%	12,880	18.5%
Total revenue from operations	125,607	95.7%	106,616	97.4%	66,831	96.2%
Other Income	5,637	4.3%	2,885	2.6%	2,627	3.8%
Total income	131,244	100.0%	109,500	100.0%	69,458	100.0%
 Transmission of energy cost ⁽¹⁾	 (30,338)	 16.5%	 (56,998)	 12.5%	 (26,429)	 15.9%
Connection	(147)	0.1%	(127)	0.1%	(164)	0.2%
Integrated operation	(7,402)	5.6%	(6,199)	5.7%	(6,428)	9.3%
Losses due to impairment of trade receivables and contract assets	2	0.0%	0	0.0%	(829)	1.2%
Depreciation and amortization	(28,886)	22.0%	(23,446)	21.4%	(15,189)	21.9%
Amortization of right of way	(2,689)	2.0%	(1,480)	1.4%	(749)	1.1%
General and administrative expenses	(10,686)	8.1%	(11,016)	10.1%	(12,776)	18.4%
Operating income	51,099	38.9%	10,233	9.3%	6,894	9.9%
 Finance costs, net	 (20,045)	 15.3%	 (7,440)	 6.8%	 (3,640)	 5.2%
Participation in the gain on investments in associated companies	1,804	1.4%	781	0.7%	862	1.2%
Participation in the loss investment in joint venture	(180)	0.1%	(188)	0.2%	(331)	0.5%
Profit before income tax	32,677	24.9%	3,386	3.1%	3,784	5.4%
 Income tax						
Current	(4,309)	3.3%	852,581	0.8%	(1,405)	2.0%
Deferred	(328)	0.3%	(3,615)	3.3%	(39)	0.1%
Total income tax	(3,981)	3.0%	(2,764)	2.5%	(1,445)	2.1%
				0.0%		
Profit after income tax	28,696	21.9%	622	0.6%	2,339	3.4%
 Net movement in balance of regulatory deferred activities accounts	 (15,764)	 12.0%	 0	 0.0%	 0	 0.0%
 Net profit after the movement of net balances						
in the Regulatory deferral activities accounts	12,932	9.9%	622	0.6%	2,339	3.4%

⁽¹⁾ Includes expenses related to the compulsory generation (*Generación Obligatoria*) expense of U.S.\$ 8,670, U.S.\$ 43,346 and U.S.\$ 15,395, for the years ended December 31, 2018, 2017 and 2016, respectively. See note 28 the financial statements

2018 Results compared to 2017

	<u>2018</u>	<u>2017</u>	<u>Δ 2018 vs. 2017</u>	<u>Δ % 2018 vs. 2017</u>
	(In thousands of USD)			
Revenue from operations				
Transmission of energy	108,304	84,459	23,845	28.2%
Connection	5,017	7,438	(2,420)	(32.5%)
Integrated Operation	12,286	14,719	(2,433)	(16.5%)
Total revenue from operations	125,607	106,616	18,991	17.8%
Other Income	5,637	2,885	2,752	95.4%
Total income	131,244	109,500	21,743	19.9%
Transmission of energy cost ⁽¹⁾	(30,338)	(56,998)	(26,429)	58.7%
Connection	(147)	(127)	(19)	15.1%
Integrated operation	(7,402)	(6,199)	(1,202)	19.4%
Impairment in trade receivables	2	0	2	.0%
Depreciation and amortization	(28,886)	(23,446)	(5,440)	23.2%
Amortization of right of way	(2,689)	(1,480)	(1,209)	81.6%
General and administrative expenses	(10,686)	(11,016)	331	(3.0%)
Results of the activities of Operation	51,099	10,233	40,866	399.4%
Finance costs, net	(20,045)	(7,440)	(12,605)	169.4%
Participation in the gain on investments in associated companies	1,804	781	1,022	130.9%
Participation in the loss investment in joint venture	(180)	(188)	7,412	(4.0%)
Profit before income tax	32,677	3,386	29,291	865.0%
Income tax				
Current	(4,309)	853	(5,162)	(605.5%)
Deferred	(328)	(3,617)	3,945	(109.1%)
Total income tax	(3,981)	(2,764)	(1,217)	44.0%
Profit after income tax	28,696	622	28,074	4,514.7%
Net movement in balance of regulatory deferred activities accounts	(15,764)	0	(15,764)	100.0%
Net profit after the movement of net balances in the Regulatory deferral activities accounts	12,932	622	12,310	1,979.7%

⁽¹⁾ Includes expenses related to the compulsory generation (Generación Obligada) expense of U.S.\$ 8,670 and U.S.\$ 43,346 for the years ended December 31, 2018 and 2017, respectively. See note 28 the financial statements.

Total revenue from operations for the year ended December 31, 2018, increased by 17.8% or U.S.\$18.9 million, primarily due to higher transmission revenue of 28.2%, compared to the year ended December 31, 2017. This increase in transmission revenue was mainly due to additional revenues in an amount of U.S.\$23.8 million

as a consequence of the third transmission line being fully operational during the whole fiscal year 2018, after entering into commercial operations in October 2017. This increase was partially offset by a 32.5% decrease in revenues from connection services and a 16.5% decrease in integrated operation service revenues for the year ended December 31, 2018 as compared to the same period in 2017. The decrease in connection services and integrated operations services were due in part to adjustments to the regulatory payments we received in connection with those services, as a consequence of the reflection of lower costs we experienced in providing integrated operation services and connection services.

The following table shows a breakdown of our transmission of energy cost for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Δ 2018 vs. 2017</u>	<u>Δ % 2018 vs. 2017</u>
<u>Transmission of energy cost</u>	<u>(in thousands of USD, except for percentages)</u>			
Personnel expenses	7,635	4,939	2,696	54.6%
Repair and Maintenance	3,934	846	3,088	365.0%
Costs for damages caused (2)	0	4,555	(4,555)	(100.0%)
Commercial and financial services	2,128	734	1,394	189.9%
Non-personal services	2,584	674	1,910	283.5%
Materials and supplies	1,144	429	715	166.9%
Rentals	420	416	4	.9%
Basic services	797	514	283	55%
Travel and transportation	411	323	87	27.0%
Fuel and lubricants	151	103	47	46.0%
Provision for litigation liabilities	2,401	0	2,401	100.0%
Taxes, regulation and inspection fees	0.491	28	(28)	(98.3%)
Compulsory generation	8,668	43,346	(34,678)	(80%)
Others	<u>64</u>	<u>90</u>	<u>(26)</u>	<u>(28.7%)</u>
Total Transmission of energy cost	<u>30,337</u>	<u>56,998</u>	<u>26,661</u>	<u>46.8%</u>

During 2018, 38% of our operating costs and expenses corresponded to transmission of energy costs, 13% general and administrative expenses, within transmission of energy costs the compulsory generation expense represents 17.8% of our operating costs and expenses.

Transmission of energy cost increased by 46.8%, or U.S.\$ 27 million, in 2018 compared to 2017. These cost increases were mainly related to the increase of 63.46% in personnel expense, 365.0% increase in repair and maintenance and 283.5% increase in non-personal services due mainly to the commencement of service of our third transmission line. However, the third transmission line was also directly responsible for the 80.0%, or U.S.\$34.7 million, reduction in compulsory generation (*Generación Obligated*) fees.

The following table shows a breakdown of our General and administrative expenses for the years ended December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>	<u>Δ 2018 vs. 2017</u>	<u>Δ % 2018 vs. 2017</u>
<u>General and administrative expenses</u>	(in thousands of U.S.\$, except for percentages)			
Personnel expenses	4,416	6,138	(1,721)	(28.0%)
Repairs and maintenance	200	164	37	22.3%
Commercial and financial services	1,566	304	1,261	414.7%
Non-personal services	1,789	1,981	(192)	(9.7%)
Materials and supplies	186	182	4	2.3%
Rentals	359	318	41	12.8%
Basic services	224	281	(58)	(20.5%)
Travel and transportation	80	136	(56)	(41.3%)
Fuel and lubricants	41	22	19	87.1%
Taxes, regulation and inspection fees	414	1,173	(759)	(64.7%)
International organizations	6	5	1	27.5%
Provision for litigation	0	269	(269)	(100.0%)
Provision for inventory obsolescence	0	0	0	.0%
Provision for voluntary retirement	1,227	0	1,227	.0%
Other expenses	<u>177</u>	<u>44</u>	133	301.9%
	<u>10,686</u>	<u>11,016</u>	<u>(331)</u>	<u>(3.0%)</u>

General and administrative expenses decreased by 3.0% for the year ended December 31, 2018 as compared to the same period in 2017. This decrease is mainly explained by lower personal expenses of 28%, lower non-personal services 9.7% and lower inspections fees of 64.7%, partially offset by the expense of the early retirement program offered only during the year ended December 31, 2018.

Depreciation of assets increased 23.2% and amortization of right of way increased 81.6% for the year ended December 31, 2018. This difference is primarily explained by the increased in assets due to the third transmission line.

Financial expenses increased by 169% for the year ended December 31, 2018 compared to the same period in 2017, primarily as a result of U.S.\$12.6 million of interest related to our credit facilities with Citibank and CAF.

Income tax expense increased 76% for the year ended December 31, 2018 as compared to 2017. The effective tax rate went from 81% to 23% due mainly to the amendment of prior year's tax returns in 2017, which increased the tax expense in 2017 and the reduction in non-deductible tax expenses in 2018.

2017 Results compared to 2016

	<u>2017</u>	<u>2016</u>	<u>Δ 2018 vs.</u> <u>2017</u>	<u>Δ % 2018</u> <u>vs. 2017</u>
	(In thousands of USD)			
Revenue from operations				
Transmission of energy	84,459	47,224	37,236	78.8%
Connection	7,438	6,727	710	10.6%
Integrated Operation	14,719	12,880	1,839	14.3%
Total revenue from operations	106,616	66,831	39,785	59.5%
Other Income	<u>2,885</u>	<u>2,627</u>	256	9.8%
Total income	109,500	69,458	40,042	57.6%
Transmission of energy cost	(56,998)	(26,429)	(30,569)	54%
Connection cost	(127)	(164)	37	(22.3%)
Integrated operation cost	(6,199)	(6,428)	229	(3.6%)
impairment on trade receivables	0	(829)	829	.0%
Depreciation and amortization	(23,446)	(15,189)	(8,257)	54.4%
Amortization of right of way	(1,480)	(749)	(731)	97.5%
General and administrative expenses	<u>(11,016)</u>	<u>(12,776)</u>	1,759	(13.8%)
Operating income	10,233	6,894	3,339	48.4%
Finance costs, net	(7,440)	(3,640)	(3,800)	104.4%
Participation in the gain on investments in associated companies	781	862	(80)	(9.3%)
Participation in the loss investment in joint venture	<u>(188)</u>	<u>(331)</u>	144	(43.4%)
Profit before income tax	3,386	3,784	(398)	(10.5%)
Income tax				
Current	853	(1,405)	2,258	(160.7%)
Deferred	<u>(3,617)</u>	<u>(39)</u>	(3,578)	9155.1%
Total income tax	(2,764)	(1,445)	(1,320)	91.4%
Profit after income tax	622	2,339	(1,718)	(73.4%)
Net movement in balance of regulatory deferred activities accounts	0	0	0	.0%
Net profit after the movement of net balances	<u>622</u>	<u>2,339</u>	<u>(1,718)</u>	<u>(73.4%)</u>
in the Regulatory deferral activities accounts	<u>622</u>	<u>2,339</u>	<u>(1,718)</u>	<u>(73.4%)</u>

Total revenue from operations increased by 59.5% primarily due to a 78.8% increase in transmission revenue that amounted to U.S.\$ 39.8 million for the year ended December 31, 2017. This increase was mainly due to revenues in an amount of U.S.\$37.2 million derived from additional transmission revenues directly related to the third transmission line becoming operational in October 2017. This increase is complemented by an 10.6% increase in revenues from connection services and a 14.3% increase in integrated services revenues for the year ended December 31, 2017 as compared to the same period in 2016. The increase in connection services and

integrated operations services were due in part to adjustments to the regulatory payments we received in connection with those services, made in part to reflect higher costs we experienced in providing integrated operation services and connection services.

The following table shows a breakdown of our transmission of energy cost for the years ended December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>	<u>Δ 2017 vs. 2016</u>	<u>Δ % 2017 vs. 2016</u>
<u>Transmission of energy cost</u>	<u>(in thousands of U.S.\$, except for percentages)</u>			
Personnel expenses	4,939	5,936	(997)	(16.8%)
Repair and Maintenance	846	646	200	31.0%
Costs for damages caused (2)	4,555	0	4,555	
Commercial and financial services	734	638	96	15.0%
Non-personal services	674	1,577	(903)	(57.3%)
Materials and supplies	429	694	(266)	(38.3%)
Rentals	416	467	(51)	(10.9%)
Basic services	515	542	27	4.9%
Travel and transportation	323	349	(25)	(7.3%)
Fuel and lubricants	103	133	(30)	(22.6%)
Taxes, regulation and inspection fees	28	49	(21)	(42.5%)
Others	<u>90</u>	<u>2</u>	87	3650.5%
Compulsory generation	<u>43,346</u>	<u>15,395</u>	27,951	181.6%
Total Transmission of energy cost	<u>56,998</u>	<u>26,492</u>	<u>30,569</u>	115%

Transmission of energy cost increased by 115%, or U.S.\$30.6 million, in 2017 compared to 2016. These higher costs were primarily related to the equipment malfunction in the Panama I Substation during March of 2017, that caused damages to the system totaling U.S.\$4.6 million. During 2017 our *Generación Obligada* cost also increased by 181.6% mainly attributed to the delay of construction of the third transmission line.

The following table shows a breakdown of our General and administrative expenses for the years ended December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>	<u>Δ 2017 vs. 2016</u>	<u>Δ % 2017 vs. 2016</u>
<u>General and administrative expenses</u>	(in thousands of U.S.\$, except for percentages)			
Personnel expenses	6,138	4,473	1,664	37.2%
Repairs and maintenance	164	108	56	51.9%
Commercial and financial services	304	357	(52)	(14.7%)
Non-personal services	1,981	1,642	338	20.6%
Materials and supplies	182	529	(348)	(65.7%)
Rentals	318	454	(135)	(29.8%)
Basic services	281	395	(114)	(28.9%)
Travel and transportation	136	220	(85)	(38.4%)
Fuel and lubricants	22	39	(17)	(43.0%)
Taxes, regulation and inspection fees	1,173	933	240	25.7%
International organizations	5	14	(9)	(65.0%)
Provision for litigation	269	1,812	(1,544)	(85.2%)
Provision for inventory obsolescence	0	682	(682)	.0%
Other expenses	<u>44</u>	<u>1,116</u>	<u>(1,072)</u>	<u>(96.0%)</u>
	<u>11,016</u>	<u>12,776</u>	<u>(1,759)</u>	<u>(13.8%)</u>

General and administrative expenses decreased by 13.8% for the year ended December 31, 2017 as compared to the same period in 2016. This decrease is mainly explained by reduction of 85.2% in provisions for litigations, 65.7% reduction in material and supplies and 29.8% reduction in rental expense.

Depreciation of assets increased 54.4% and amortization of right of way increased 97.5% for the year ended December 31, 2017. This difference is primarily explained by the increased in assets due to the third transmission line.

Financial expenses increased by 104.4% for the year ended December 31, 2017 compared to the same period in 2016, primarily due to U.S.\$3.8 million of interest related to our credit facilities with Scotiabank and CAF.

Income tax expense increased 91.4% for the year ended December 31, 2017 as compared to 2016. The effective tax rate increased from 38.2% to 81.6% as a result of adjustments to prior years' tax returns and increase in non-deductible expenses.

Liquidity and Capital Resources

We finance most of our liquidity needs through cash generated by operations and debt financings. The table below shows our cash flows for the periods indicated.

	For the years ended December 31		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>In thousands of U.S.\$</u>		
Net cash flows provided by operating activities	(7,578)	80,900	36,604
Net cash flows used in investing activities	(102,401)	(53,283)	(65,392)
Net cash flows provided by (used in) financing activities	78,081	28,546	33,581

Cash flow provided by operating activities

Cash flow generated for the year ended December 31, 2018, from operating activities was U.S.\$(7.58) million, which represents a decrease of 109% as compared to U.S.\$80.9 million over the same period in 2017.

This difference is mainly due to an increase in accounts receivable for U.S.\$61.9 million as compared to 2017 and higher interest payments due to the Citibank credit facility in 2018 for a total of U.S.\$25.1 million in compared to U.S.\$2.4 million in 2017.

Cash flow used in investing activities

Our capital expenditures (including additions of property, plant and equipment plus cash advances) were U.S.\$384.1 million for the period ended December 31, 2018, as compared to U.S.\$53.9 million for the same period of 2017. This increase is due to capital expenditure initiatives for the third transmission line. The increase in investing activities was partially offset by cash received from the sale of fixed assets in the amount of U.S.\$5.0 million.

Cash flow provided by (used in) financing activities

On August 15, 2018, we entered into a syndicated loan with Citibank (as lead arranger) and other lenders, for U.S.\$400 million, maturing on September 6, 2021 and a variable rate of 3 month Libor plus a spread of 2.25% annual interest rate. The proceeds were used to fully pay the cost of the third transmission line, a total of U.S.\$275.8 million. We also received an additional U.S.\$52.7 million from our CAF facility to fund CAPEX requirements. We fully prepaid our CAF facility on April 2, 2019, for a total amount of U.S.\$74.8 million.

On August 31, 2017, we received a capital investment from our shareholder in the amount of U.S.\$13.8 million to fund operations. We received funds totaling U.S.\$49.3 million from our loan facilities.

Project Development and Financial Contractual Obligations

The following table sets forth certain contractual obligations as of December 31, 2018:

As December 31, 2018			
Payments due by period			
	Total	Short Term	Long Term
		(in thousands of U.S.\$)	
Lines of Credit ⁽¹⁾	721	721	-
Citibank Loan	400,000	-	400,000
Other Debt ⁽²⁾	94,365	7,702	86,663
Subtotal	495,086	8,423	486,663
Other commitments ⁽³⁾	96,363	96,363	-
Total	591,449	104,786	486,663

- (1) Lines of credit include the Credit Facilities among ETESA as Borrower and Banco Nacional de Panama, Caja de Ahorros, Banco General, Banco Centroamericano de Integración Económica.
- (2) Other Debt includes a loan dated as of April 30, 2015 with CAF for U.S.\$71.34 million (which was prepaid on April 2, 2019).
- (3) Other commitments include payment of our accounts payable, including obligations under our existing capital expenses contracts. These commitments are contingent upon certain progress on project construction.

Capital Expenditures

Property, plant and equipment

Property, plant and equipment capital expenditures (which includes additions of property, plant and equipment plus cash advances to third parties) were U.S.\$384.1 million for the period ended December 31, 2018, including U.S.\$275.8 million for the Third Transmission Line, as compared to U.S.\$53.9 million for the same period of 2017.

In addition to the above contractual obligations, as of the date of this offering memorandum we are constructing several projects approved by the government and we estimate disbursements associated to these projects of approximately U.S.\$301 million over the next three years.

Investments in related companies

We have the following equity interest in other companies. We own 6,500 shares in Empresa Propietaria de la Red (EPR) with a nominal value of U.S.\$1,000 each, representing 11.11% participation, acquired June 2011.

We also own 300 shares in Red Centroamericana de Comunicaciones (REDCA) with a nominal value of U.S.\$1,000 each, representing 11.11% participation, acquired October 2012

Finally, we own 8,187 shares in Interconexión Eléctrica Colombia Panama (IECP), with a nominal value of U.S.\$1,000 each, representing 50% participation, acquired February 2010

Future Capital expenditures

We project capital expenditures over the next ten year averaging U.S.\$93.9 million annually. Our capital requirements are expected to be financed with a combination of internal resources and third party debt.

Dividend Policy

We have only paid dividends in two of the last 10 years: U.S.\$5.8 million in 2010 and U.S.\$2.3 million in 2015. We have instead invested most of our annual profits in developing the expansion and the efficiency of our transmission lines, which provides us with a more competitive tariff under the tariff scheme.

Disclosure of Market Risk

Because we have primarily fixed and long-lived assets, our policy is to raise financing predominantly with long-term maturities and at fixed rates.

Interest Rate Risks

Significant changes in fair values and future cash flows of financial instruments that can be directly attributable to interest rate risks include changes in the net proceeds from financial instruments whose cash flows are determined in reference to floating interest rates and changes in the value of financial instruments with fixed cash flows.

Our assets are primarily fixed and long-lived intangible assets. Consequently, financial liabilities that are used to finance such assets consist primarily of long-term liabilities at fixed rates. This debt is recorded in the balance sheet at as an amortized cost.

The objective of interest rate risk management is to achieve a balanced debt structure, decrease the impact on costs due to interest rate variations, and reduce volatility in the income statement.

The table below compares our debts and shows that the majority of the debt as of December 31, 2018, is at a variable rate. Thus, variations in inflation rates could potentially impact our financial expenses.

Debt	Currency or index	Interest Rate	Type of rate	Amount in Original Currency (in thousands of U.S.\$)	
				December 31, 2018	December 31, 2017
Caja de Ahorros Loan	U.S.\$	6.74%	Floating ⁽¹⁾	23,024	25,331
Caja de Ahorros Line of	U.S.\$	6.74%	Floating ⁽¹⁾	721	950
Corporacion Andina de	U.S.\$	6.28%	Floating ⁽²⁾	71,342	15,941
Citibank Loan	U.S.\$	4.94%	Floating ⁽³⁾	400,000	-
Banco Nacional Line of	U.S.\$	4.74%	Floating ⁽⁴⁾	-	30,000
Banco Nacional Loan	U.S.\$	4.50%	Fixed	-	20,000
The Bank of Nova Scotia	U.S.\$	6.19%	Floating ⁽⁵⁾	-	46,770

(1) The floating rate of the Credit Facility corresponds to 6-month LIBOR plus a margin of 4.00%, with a minimum annual interest rate of 5.5%.

(2) The floating rate of the Revolving Credit Facility corresponds to 6-month LIBOR plus a margin of 3.45%

(3) The floating rate of the Revolving Credit Facility corresponds to 3-month LIBOR plus a margin of 2.25%

(4) The floating rate of the Revolving Credit Facility corresponds to 6-month LIBOR plus a margin of 2.00%

(5) The floating rate of the Revolving Credit Facility corresponds to 3-month LIBOR plus a margin of 3.50%

We are not materially exposed to risk from changes in market interest rates. However, increases in inflation could impact the cost of ETESA denominated debt and, therefore, our financial expenses. This impact is to some extent offset by the mechanism of indexation of our revenue, which is also adjusted for inflation using indexation formulas.

Currency Exchange Risk

We maintain our financial books and records and publish our financial statements in Balboas. Since shortly after the Republic of Panama's independence from Colombia in 1903, the Republic of Panama, through a monetary agreement with the United States executed on June 20, 1904, has established the U.S. dollar as its legal tender currency. The Balboa, the monetary unit of the Republic of Panama, is at par and of free exchange with the U.S. dollar. The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal tender. The use of the U.S. dollar as the country's legal tender and currency also is expressly recognized by the Republic of Panama's Tax Code. All amounts set forth this offering memorandum are shown in U.S. dollars., but as noted above, are equivalent to Balboas.

Liquidity Risk

Risk associated to our management

We run the risk of being unable to satisfy a need for cash, or unable to make a debt payment upon maturity. Furthermore, we may not be able to liquidate assets in a timely manner at a reasonable price.

To guarantee that we are able to respond financially both to investment opportunities and to the timely payment of our obligations, we maintain three dedicated revolving credit line for working capital in the amount of U.S.\$130 million. These committed line of credit facility, opened on December 2018, were granted for a period of one year by Banco General, BCIE and Banco Nacional de Panama.

We are exposed to risks associated with indebtedness, including refinancing risk when our debt matures. These risks are mitigated by using long-term debt and appropriately structuring maturities over time.

The following table presents the capital amortizations and estimated interest payments corresponding to our financial liabilities (debt), according to their maturity date, as of December 31, 2018, 2017 and 2016.

	Less than	1 to 3	3 to 5	5 to 10	More than 10	
Debt maturity (principal)	1 Year	Years	Years	Years	Years	Total
	(In millions of U.S.\$)					
December 31, 2018	35.4	470.2	24.6	52.5	18.4	601.1
December 31, 2017	372.6	48.6	36.6	41.2	28.1	527.1
December 31, 2016	37.1	17.7	16.5	36.1	18.1	125.5

Credit Risk

With respect to credit risk related to accounts receivable from our regular activities, this is characterized by the short-term period of collection of receivables from clients, which does not lead to the accumulation of significant unpaid amounts. However, our revenues are highly concentrated in a small number of major customers as shown in the following table.

Income of regular activities	For the year ended		
	December 31, 2018	December 31, 2017	December 31, 2016
(In thousands of U.S.\$, except for percentages)			
EDEMET	38,233	25,776	23,976
ENSA	32,756	18,857	14,986
EDECHI	6,389	4,631	3,165
EGE FORTUNA, S.A.	7,095	8,278	7,126
AES PANAMÁ	7,676	8,702	8,042
E.G.E. BAHIA LAS MINAS	2,597	1,582	1,451
OTHERS	30,862	38,791	8,085
Total	<u>125,607</u>	<u>106,616</u>	<u>66,831</u>
% of revenue derived from our top five customers	73.36%	62.13%	85.73%

The transmission agreements signed with these clients, including their subsidiaries, are expected to generate a large part of our future cash flows. Therefore, a substantial change in their joint financial condition or operating income could negatively affect our cash flows.

Remuneration of our assets is secured by law, therefore if a counterparty is unable to pay, all other off takers must pay this amount, posing no significant risk or exposure to one single client in the long term.

In terms of our credit risk associated with other financial assets (time deposits, fixed-return mutual funds and reverse repurchase agreements, net asset position from derivative contracts), the treasury policy establishes certain limits on our allowed credit exposure to a particular institution; such limits depend on the credit rating and capital of each institution. Likewise, for investments in mutual funds, only funds with a minimum assigned credit rating qualify.

Off-Balance Sheet Arrangements

As of the date of this offering memorandum, we do not have any material off-balance sheet arrangements.

Significant Accounting Policies

The principal accounting policies applied in preparing our financial statements are detailed in Note 2 to our audited financial statements and our unaudited interim financial statements. These policies have been based on IFRS Standards, in effect since the start of operations and applied uniformly for the periods presented.

Critical Accounting Estimates

Use of Estimates in Preparation of Financial Statements

In preparing ETESA's Financial Statements, our management makes estimates concerning a variety of matters. Some of these matters are highly uncertain, and the estimates involve judgments based on the information available to our management at the time. In the discussion below, our management has identified several matters for which our financial presentation would be materially affected if either we had used different estimates that could reasonably be used or in the future we change our estimates in response to changes that are reasonably likely to occur. This discussion addresses only those estimates that our management considers most important based on the degree of uncertainty and the likelihood of a material impact if a different estimate had been used. There are many other areas in which the estimates of management about uncertain matters are used, but the reasonably likely effect of changed or different estimates is deemed not material to our financial presentation. See the notes to ETESA's Financial Statements for a more detailed discussion of the application of these and other accounting policies.

The following are the accounting policies that our management believes are the most important to the presentation of our financial condition and results of operations and that require subjective judgment

Property, Plant and Equipment

Property, plant and equipment include the following items: construction in progress, land, buildings, plants and equipment, IT equipment, furniture, motor vehicles, and other property, plant and equipment.

Construction in progress includes labor, materials, interest, and allocation of some general and overhead costs. Interest expenses directly attributable to the construction, both specific and generic in nature, are accrued only during the construction period. Also included in the capitalization of construction in progress are expenses directly related to personnel and other expenses of an operating nature attributable to the project. Upon completion, construction in progress is transferred to the appropriate class of property, plant and equipment once the testing period is finalized and the assets are available for use.

Depreciation is determined using the straight-line method considering their cost less residual values over their estimated economic useful lives. A change in the estimate of useful lives could impact the level of annual depreciation expense recognized during the period. In estimating the useful lives and expected residual value, we rely primarily on actual experience with similar assets and technical recommendations from engineers and manufacturers. The estimates are reviewed on an annual basis for any changes. When depreciable property components are retired, the original cost and decommissioning charges, less residual value, are charged to accumulated depreciation.

Value in use is the present value of the estimated future cash flows expected to be derived from continuing use of the asset and from its ultimate disposal.

Accounting for Income Taxes

In accordance with Panamanian tax law, income taxes are computed and paid on a per legal entity basis. As part of the process of preparing our financial statements, we are required to calculate our income tax expense based on rates in effect at the time of the calculation (which are subject to change by enactment of a new tax rate). We include in our preliminary monthly results the tax calculation according to the profit at the end of the month and also taking into consideration all applicable laws (deductible expenses & others) when making this calculation.

The income tax rates used to calculate deferred taxes are the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. Such rates may differ from the tax rate used to calculate current income tax expense. A change in the income tax rate can affect the book value of deferred taxes, which may result in an impact in earnings.

Impairment on trade receivables

As from January 1, 2018 ETESA adopted the provisions of IFRS 9 which incorporates an expected loss model. The expected loss model is based on the Company's historical experience of default and considers forward looking elements. Forward looking elements are based on judgment and consider the industry in which our counterparties operate as well as the general macroeconomic condition of Panama. Should conditions in Panama or in a specific industry change significantly, our estimates for impairment on trade receivables may change significantly.

BUSINESS

Overview

Empresa de Transmisión Eléctrica, S.A. was formed as a *sociedad anónima* by Public Deed No. 148 of January 19, 1998 as a result of the restructuring of the IRHE. The IRHE was created in 1961 by the Government of Panama as an entity in charge of coordinating and expanding electricity generation, transmission and distribution throughout Panama. The IRHE was also created with the objective of increasing access to electricity to secluded regions of the country. In 1973, the city of Santiago de Veraguas located approximately 250 kms west of Panama City was integrated into the electrical grid. In 1976, the western most province of Chiriquí was integrated through a 203kV line. In 1985, Panama's transmission system was connected with Costa Rica's transmission system. In 1999, ETESA is formally registered as a *sociedad anónima* with the Panamanian public registry. In 2003, the second transmission line was completed, after an approximate investment of U.S.\$170 million. In 2014, SIEPAC was completed and entered into service. In 2017, the third transmission line entered into operation.

The restructuring of the IRHE resulted in eight companies that reshaped Panama's electricity generation and distribution system. These include three distribution companies, four generation companies and ETESA, which is primarily responsible for system's high voltage power transmission. We continue to operate without any competition in our market based on a concession by the Republic of Panama that will continue until 2024 and by grant of monopoly under the law, notwithstanding the fact that market agents are able to construct, build, operate and maintain connection lines and substations required for the connection of generation plants to the distribution system with the understanding that these connection lines will only be used for the connection of market agents to the ST. However, this does not affect ETESA's monopoly as it continues to be the only company with a concession granted by law to transmit energy. We have already commenced the process of extending our concession and expect to receive ASEP's preliminary approval to extend our concession beyond 2024.

Our primary business consists of high voltage transmission from power generation centers to local distribution centers and to large scale consumers. We also are responsible for the delivery of electricity to and from the national grid connection points to international grids and for the operation of the integrated national system. Our mandate is to operate the system reliably, securely and with a high quality of service. Through the National Dispatch Center (*Centro Nacional de Despacho*, "CND"), we are tasked with the administration and the commercialization of the electricity market both in the contractual market and the spot market.

Under Law No.6 of February 3,1997 ("Law No. 6"), we are tasked with the continuing investment and expansion of the national grid for the transmission of electricity in the integrated national system, this includes the operation and building of new installations, reinforcement of the existing grid, the preparation of the expansion plan for transmission services and work plan for generation and maintenance, operation and provision of services related to the meteorological and hydrological national systems.

Our transmission system, the ST, is composed of high voltage power lines, substations, transformers and other transmission components necessary to transmit the energy from power generation companies to the different delivery points such as the distribution companies, international grids and large scale consumers which we define as those clients which have requirements greater than 100 Kw per site. As of December 31, 2018, our transmission system consisted of 3,088.1 km of 230kV power lines and 306.90 km of 115 kV power lines.

Our principal offices are located on Avenida Ricardo J. Alfaro, Edificio Sun Tower Mall Piso No 3, Panama City, Panama. Our shares are wholly owned by the Republic of Panama.

Our Revenues

We recorded revenues from operations in the amount of U.S.\$125.6 million, U.S.\$106.6 million and U.S.\$66.8 million in 2018, 2017 and 2016, respectively. Our net profit after the movement of net balances in the regulatory deferral accounts for the years 2018, 2017 and 2016 was U.S.\$12.9 million, U.S.\$0.6 million and U.S.\$2.3 million respectively. Our operating income for the years 2018, 2017 and 2016 was U.S.\$ 51 million, U.S.\$ 10.2 million and U.S.\$ 6.9 million, respectively. Our EBITDA for the years 2018, 2017 and 2016 was

U.S.\$68.5 million, U.S.\$35.8 million and U.S.\$23.6 million, respectively. Our Adjusted EBITDA for the years 2018, 2017 and 2016 was U.S.\$91.3 million, U.S.\$78.5 million and U.S.\$38.2 million, respectively. Our revenues derive from three main sources: transmission of energy, integrated operation and connection. Transmission of Energy revenues represented 83%, 77% and 68% of our revenues in 2018, 2017 and 2016, respectively. Our revenue growth in 2017 was due in part to our third transmission line becoming fully operational in 2017 and to an increase in our tariff by our regulator. The further increase in such amounts for 2018, reflects the fact that we had a full year of operations of the third transmission line, as opposed to approximately two months in 2017. See—Transmission Services. The second highest source of revenues, integrated operations services, represented 9%, 13% and 19% of our revenues in 2018, 2017 and 2016, respectively. Finally, connection services represented 4%, 7% and 10% in 2018, 2017 and 2016.

Transmission services

Our transmission services involve transmitting electricity from power generation companies in Panama to the consumers of the transmission network, which primarily are the three distributors that hold concessions for distribution of electricity. These distributors are Empresa de Distribución Eléctrica Metro Oeste, S.A. (EDEMET, a subsidiary of Naturgy Energy Group, rated Baa2 by Moody's, BBB by Standard and Poor's and BBB by Fitch Ratings), Elektra Noreste, S.A., (ENSA, a subsidiary of Empresas Públicas de Medellín rated Baa3 by Moody's and BBB by Fitch Ratings) and Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI, also a subsidiary of Naturgy Energy Group).

The transmission services revenue distribution for the year ended December 31, 2018, 2017, 2016 is described in the table below.

Transmission Revenue Distribution	For the year ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Empresa de Distribución Eléctrica Metro Oeste, S. A (EDEMET)	29%	22%	37%
Elektra Noreste, S.A. (ENSA)	28%	19%	27%
Empresa de Distribución Eléctrica de Chiriquí, S. A. EDECHI)	5%	4%	4%

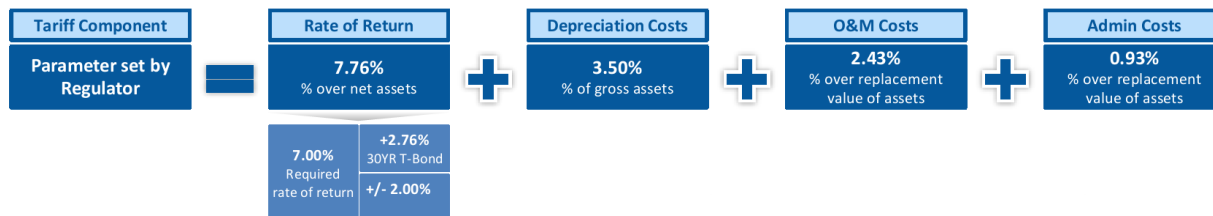
Source: ASEP

Note: Percentages correspond to percentages of total revenues

Our revenues from electricity transmission represent the cost that is assigned to the users of the ST, rather than the cost based on volume transmitted by us. Law No.6 provides that we have a maximum permitted income for our transmission services. This amount is determined through a regulated tariff set by ASEP every four years, which is subject to annual adjustments to provide for economic and industry factors. Our revenues, thus do not depend on the amount of electricity that we transmit, but rather are a function of our productive assets for which generation and distribution companies that utilize the ST are charged. We thus experience no volume risk in terms of transmission revenue. Additionally, if a distribution or generation company fails to pay us their assigned cost under the tariff system, such defaulted payment is then re-distributed and due from the other users of the system based on their market share.

Our tariff scheme is designed to ensure that we generate the necessary returns to guarantee our sustainability. The tariff is designated by ASEP so as to cover costs from operations, maintenance and administration and depreciation incurred from managing the national transmission network, allowing us to generate a positive return on assets. The current tariff scheme was approved in April 2018 and is valid retroactively from July 1, 2017 until June 30, 2021.

The summary components of the current tariff are found below:



Source: ASEP

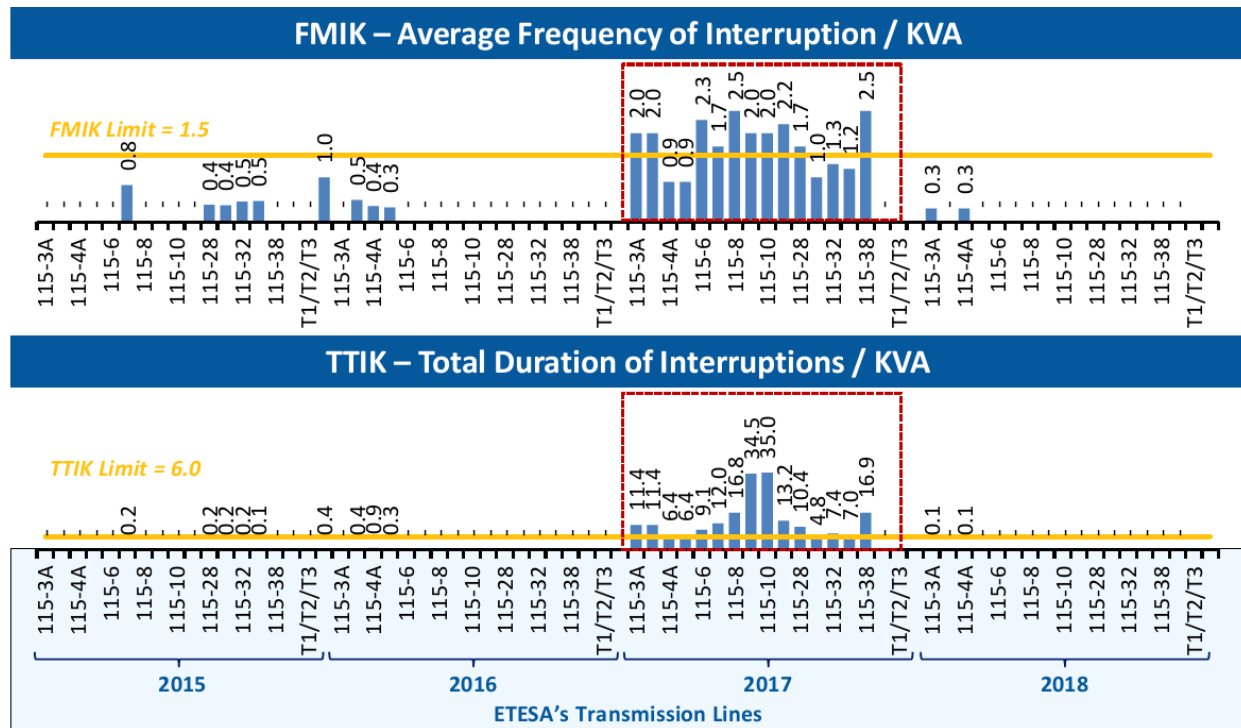
Since our transmission revenues are derived from the availability of our transmission assets, if we experience a shortfall in transmission capacity, we must compensate for the electricity that we are not able to deliver, through fees paid to power generators and distributors. We refer to this amount of compensation as the *Generación Obligada* fees. We paid *Generación Obligada* fees of U.S.\$8.7 million, U.S.\$43.3 million, U.S.\$15.4 million, U.S.\$21.0 million, U.S.\$14.7 million in 2018, 2017, 2016, 2015 and 2014, respectively. Panama tends to experience an increase in generation capacity during the rainy months (May through December), since rainfall affects the productive capacity of hydroelectric plants, especially in the western part of the country. An increase in generation might surpass our capacity for transmission and potentially we could incur in *Generación Obligada* fees.

The regulator usually approves our yearly tariff adjustments during the second quarter of our fiscal year. Once we receive such approval, we implement the updated tariff in our systems during the month of June and invoice transmission services to our clients thereafter in an adjusted amount which allows us to apply the new tariff retroactively in respect of the previously invoiced periods. Because our invoices are issued approximately 45 days after the end of each calendar month, we typically experience an increase in revenues during the second half of the year, with the largest portion of the increase concentrated in our fourth fiscal quarter.

Currently our transmission system consists of three transmission lines, with the third transmission line having commenced operations in October 2017. The first transmission line is 520 km long with a capacity of 247 kV per circuit, the second transmission line is 389 km long with a capacity of 270 kV per circuit and the third transmission line is 302 km long with a capacity of 100 kV per circuit. While each of our transmission lines has different starting points in the west of the country, they mostly transverse parallel to each other through the country to the population centers in the east of the country.

We may also have to pay *Generación Obligada* fees based on availability measures. The availability rates of our system are measured by ASEP primarily through two metrics, average frequency of interruption by KVA (FMIK) and total duration of interruption by KVA (TTIK). If we surpass a maximum FMIK of 1.5 per annum or a TTIK of 6.0 per annum we are subject to the *Generación Obligada* fees. In 2017, we experienced an FMIK and TTIK above the limits in part due to electricity generation plants in the western part of the country generating electricity in excess of our capacity to transmit it in our current transmission network and transmission delays caused by two malfunctioning substations. However, due to the annual revision of fees owed by and to ETESA, some *Generación Obligada* are not made effective until up to a year after the fees where caused. The quality metrics were down in 2017 mainly due to several disruptive events which included two nationwide blackouts caused by substation malfunctions and the collapse of a tree unto one of the power lines. We have taken measures to accelerate the procurement of new machinery in order to replace older equipment. Further, we have implemented a program aimed at clearing debris, including trees and other vegetation from growing below or near the transmission lines.

The charts below show our FMIK and TTIK for the past four years:

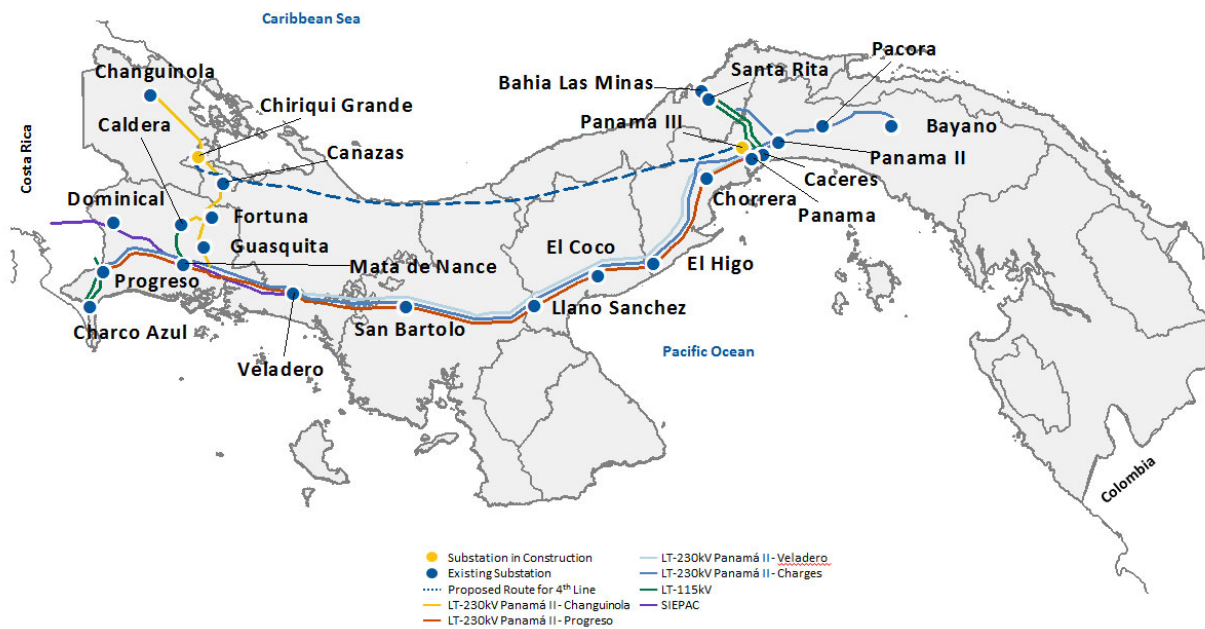


Source: ETESA

Another law that affects our transmission revenues is Law No. 45 of August 4, 2004 (Law No. 45), which aims to increase the generation of renewable energy sources. The law provides that no cost is assigned for transmission of electricity from mini (less 10MW) and small (10 MW to 20 MW) hydroelectric, geothermal or other new clean energy sources. In 2018, this amounted to \$3.2 million in lost revenue. In 2018, ASEP adjusted our transmission tariffs in order to compensate for costs incurred.

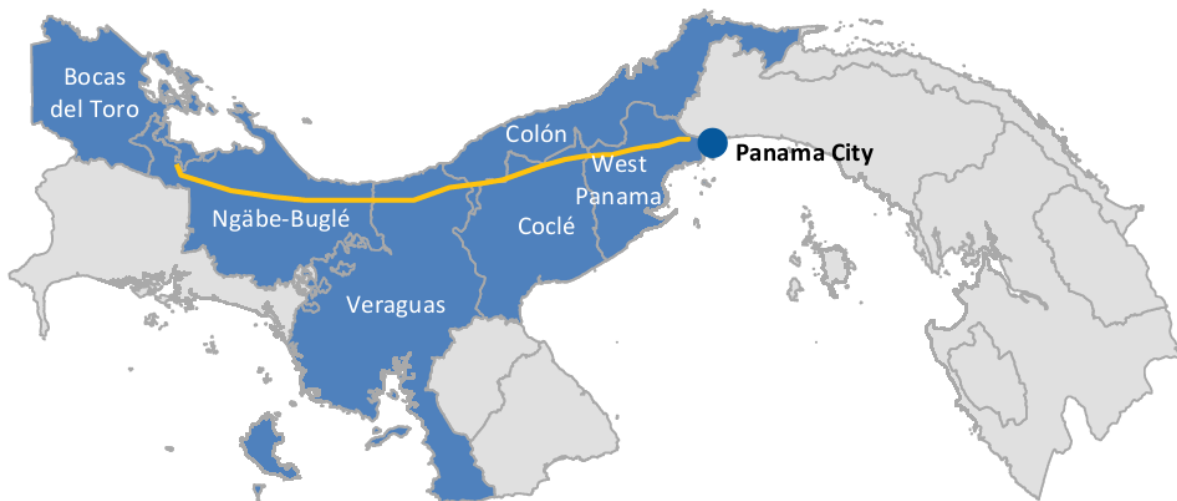
Currently our transmission system consists of three transmission lines, with the third transmission line having commenced operations in October 2017. The first transmission line expands across 520 km at 247 kV per circuit, the second transmission line expands across 389 km at 270 kV per circuit and the third transmission line expands across 302 km at 100 kV per Circuit. While each has different starting points in the west of the country, they mostly transverse parallel to each other through the country to the population centers in the east of the country.

Below is a map illustrating several of our main transmission lines including the proposed route of the fourth transmission line:



Below is a map that illustrates the proposed geographical location of the fourth transmission line:

Geographical Location of Transmission Line



Regions affected by the project — Fourth Transmission Line project

Integrated Operation Services

Integrated operation services are those provided by the CND and by the Hydrometeorology (“Hydromet”) division. The income received is on the basis of a tariff that is not related to the transmission and connection services tariff. The tariff is meant to cover the cost of administration and operation of these services, but is not intended to provide any profitability to ETESA. The CND is an agency of ETESA (although not a subsidiary), which coordinates the operations and transactions that take place among the participants of the electricity wholesale market. The CND has operational autonomy and independence, while still reporting to ETESA’s board of directors. Panama’s electricity is sold via two types of markets. The contractual market in which electricity is either sold through power purchase agreements with the distributors that are sold through auctions or to if the purchaser is an unregulated large power consumer or other generation by independent agreement. Additionally, electricity is also sold through a spot market. The CND is tasked with ensuring that there is free competition in a market environment and promoting investment in the electricity sector. Its main responsibilities are:

- *Integrated operation services.* These services include planning for the operation of the SIN, in the medium and short term, coordinating maintenance of the ST, coordinating operation with international exchanges and supervision and control of the equipment connected to the SIN.
- *Commercial administration services.* This includes services related to the electricity wholesale market, such as calculating the marginal cost of the system, settlement of transactions of participants on the spot market, settlement of energy transactions, special auxiliary services, daily clearing of output, general auxiliary services and payment of required transmission fees, all such monetary transactions being administered through the *Banco de Gestión y Cobranza*.
- Maintenance of the control system and commercial administration services with the regional electricity market. Services here include coordination of contractual market and spot market transactions, settlement of international transactions in Panama, payments or collections from Panama to the Regional Operating Entity (*Ente Operador Regional*, EOR), which is the entity responsible for the operation of the regional electricity system and for the regional electricity market.
- *Certification and verification services.* Services in this category include certification and verification of the meters that monitor the system by which electricity is measured for commercial purposes and the computer system that supervises and controls the operations of the ST.

The costs of investment and operation of the CND are appropriated from the SOI approved by ASEP. ASEP determines international comparable transmission companies with proven efficient administrative management and thus fixes the operating expenses of the CND, including the amount of staff and average salary required to implement and operate the SIN.

Our Hydromet division is also an inherited function from the IRHE that stems from Law No.6’s restructuring of the electricity sector. Our Hydromet division, which is also not a subsidiary of ETESA and has operational autonomy and independence while still reporting to ETESA’s board of directors, operates 165 meteorological stations throughout Panama to measure meteorological parameters such as pressure, temperature, extreme temperature, humidity, precipitation (quantity and intensity), wind (speed and direction), evaporation, soil temperature, insolation and solar radiation. It also operates 72 hydrometric stations to measure the river and lake levels continuously throughout the year. Its services include providing reports on the various measurements it makes. Information is consolidated in Hydromet’s 24 hour operated control center in Panama City.

Connection Services

Connection services entail us providing the assets required to connect users to the ST, when such users do not own the assets for connection. The income for connection services come from the same tariff approved by ASEP, however, when determining the amount paid to ETESA included as a component is the fee collection carried out by ETESA for the actual connection services. The connection services tariff also recognizes investments approved and implemented as well as the cost of wages approved and executed in connection with the connection

assets only. In general, the tariff is meant to recognize and repay the approved cost of providing the connections services and is not intended to provide profit to ETESA. Specifically, the connection services are separate from the main transmission system. We charge connection services to EDEMET, *Hydroecological del Teribe, S.A.* and AES Panamá S.A.

Connection services also include connections to the ST to the *Sistema de Interconexión Eléctrica de los Países de America Central* (“SIEPAC”) which connects Panama with Costa Rica, Honduras, Nicaragua, El Salvador and Guatemala. We are connected to SIEPAC through the Panama-Costa Rica border at Veladero. The connection became effective on December 31, 2010 and has a total length of 150 km. In total, the transmission line runs 1,790 km from Panama to Guatemala and includes 15 transmission stations. The SIEPAC is owned and operated by the *Empresa Proprietaria de la Red, S.A.* (“EPR”). In turn we own EPR, together with certain public utility and transmission companies of the countries connected to the SIEPAC along with private shareholders (*Endesa of Spain* and *ISA* of Colombia). EPR is the only other company that has received a concession by ASEP to transmit electricity in the territory of Panama, but only with regards to its role with the SIEPAC. We own 11.1% of the EPR, which is the only other company in Panama that has obtained a concession from ASEP for electric transmission in Panama.

In the future, such services will include connections of the ST to the Colombia-Panama Interconnection, which will link ST and the national transmission system of Colombia by a 614km transmission line. We and ISA of Colombia each own 50% of IECP, the entity that will own and operate the Colombia-Panama Interconnection. IECP petitioned for concession from ASEP to transmit electricity in Panama for the Panamanian side of the Colombia-Panama Interconnection in 2017. ASEP’s decision is still pending. On December 13, 2018, Juan Carlos Varela announced an agreement with the indigenous authorities of the Guna group for the construction of the Colombia-Panama Interconnection.

Telecommunications Services

We have specialized equipment and skilled technicians that allow us to provide telecommunication solutions to our clients. Our digital platform has been installed throughout the country in strategic points and with system redundancies. These characteristics allow us to provided services for digital communication of data and video, telephone lines and general telecom services.

We provide Supervisory Control and Data Acquisition (SCADA) services through networked data communications and graphical interfaces for data management. We also provide Wide-area Network (WAN) services over large geographical extensions. Additionally, we provide services for the protection of high voltage telephone lines, wide spectrum radio communications, tracking systems, remote monitoring services and optical ground wire (OPGW) connections.

Competitive Strengths

Key Strategic Asset for Panama

We provide an essential service for Panama’s economy since we are a vital link in the chain from power generation companies to the end consumer. We are by law the only operator and owner of the SIN, which consists currently of three transmission lines with a fourth planned line of transmission. In addition to the aforementioned law, we also hold a concession to operate the ST until 2024. We expect to obtain a preliminary favorable decision to our application to extend our concession beyond 2024.

Committed Government Ownership

We are 100% owned by the Republic of Panama and have been so since our incorporation in 1998. Historically, our board of directors has been presided by the Minister of Economy and Finance. Additionally, the Republic of Panama has supported us in the past by providing capital contributions since 2011 in a total cumulative amount of \$68.7 million. Periodically, we have received capital contributions from the Republic of Panama in the amount of U.S.\$13.3 million in 2011, U.S.\$26.5 million in 2013, and U.S.\$28.9 million in 2017. We have only paid dividends in two of the last 10 years: U.S.\$5.8 million in 2010 and U.S.\$2.3 million in 2015. We have instead

invested most of our annual profits in developing the expansion and the efficiency of our transmission lines, which provides us with a more competitive tariff under the tariff scheme. As an additional benefit, being owned by the Republic of Panama allows us to have access to multilateral financing from institutions such as the CAF and BCIE.

Supportive and Stable Regulatory Environment.

Our revenues are derived from regulated tariffs, which are determined based on a pricing regime every four years, with the current one expiring in 2021. The tariff scheme is designed to ensure that we generate the necessary investment returns to guarantee our sustainability and allows us to generate positive returns from our assets. In 2018, our tariff was increased by U.S.\$80 million in order to compensate for cost and expenses associated to *Generación Obligada* incurred as a result of delays suffered due to the construction of the Third Transmission Line in the prior year. Such costs and expenses were recognized in 2017 (where U.S.\$40 million were recognized as an asset in the line item Deferral accounts on regulated activities and U.S.\$43 million in the compulsory generation (*Generación Obligada*) account, included within the transmission of energy cost line item).

Strong Economic Backdrop

Panama (rated Baa1 with Stable Outlook by Moody's, BBB with Positive Outlook by Standard and Poor's and BBB with Stable Outlook by Fitch Ratings) is an attractive economy for foreign direct investment with real GDP growth of 5.1%, 5.7%, 5.0% and 5.3% during 2014, 2015, 2016 and 2017. In 2018, Panama's estimated GDP growth was 3.7%, inflation was 0.8% and the unemployment rate was 6.1%. Panama has been one of the fastest growing economy in Latin America over the last decade when measured by GDP growth. The World Bank Group, in its January 2019 outlook, placed Panama as the top performing economy in Latin America and the Caribbean with a 6% GDP growth rate.

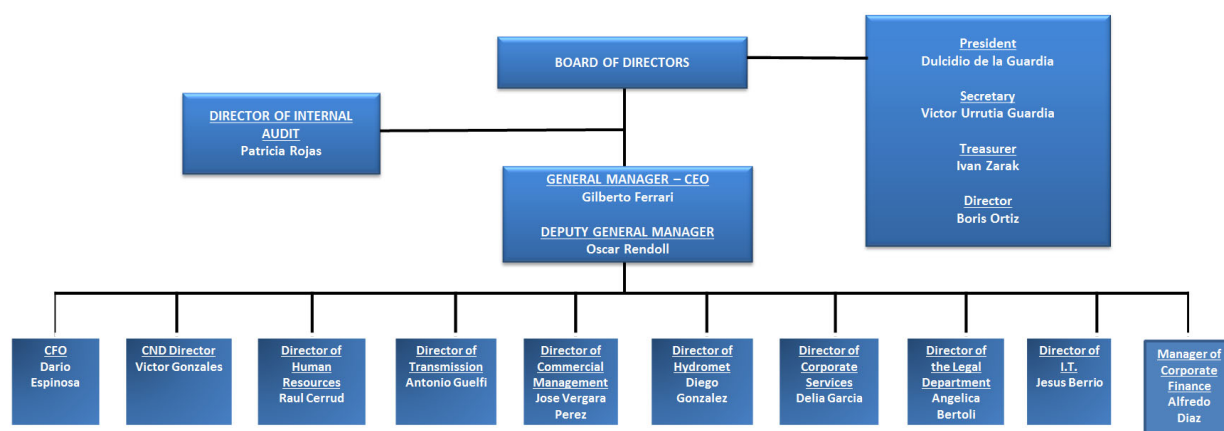
Stable and Predictable Cash Flows/Revenues

ETESA is guaranteed a minimum permitted income for the transmission services it provides. Additionally, we are not subject to volume risk as our transmission revenues are derived by the volume of electricity transmitted through the ST, but rather are a function of our productive assets for which generation and distribution companies are charged. As the only transmission company that provides electricity to Panama's consumers, we have a long standing consumer base.

Experienced Management Team

Our senior management team is deeply experienced in the industry with an average of 22 years of experience.

Below is an organizational chart of our experienced management team:



Investment and Capital Expenditures

Law No. 6 requires that we must establish an expansion plan in accordance with the plans developed by the Panamanian government for the development of the energy sector as a whole. The current expansion plan in effect is included in the expansion plan for the ST 2018-2032 which was approved by ASEP in December 2017 and includes the expansion plans for generation and transmission sectors of Panama, both in the short-term and long-term. We also revise, and ASEP approves, the plan on an annual basis based on changing economic and industry factors.

The largest project included in the long-term plan is to build a fourth transmission line from Bocas de Toro to a new substation in the Panama City area with an expected length of 317 kms. This project is being undertaken in order to transmit an additional 640 MW capacity that is being generated due to increased hydroelectric, wind and solar generation, which is in addition to the existing capacity of 1,980MW. Additionally, the west side of the country has other planned generation projects, such as the Chan II hydroelectric plant, which will need the fourth transmission line to operate. The system currently only has capacity to transmit 2,044 MW, with the new line expected to bring that to 3,900 MW after completion of the second stage. The first stage is expected to be completed by July 2023, with lines capable of transmitting at 230kV with a transport capacity of 589 MW under normal conditions and 797 MW under emergency conditions. We expect that by July 2026, the lines will be able to transmit at 500Kv with a transport capacity of 1,300 MW under normal conditions and 1,630 MW under emergency conditions.

The pre-qualification period for the fourth line bidders started in May 2018. Five potential bidders were pre-qualified for the construction of the line under a build, operate and transfer format bidding process: *Interconexión Eléctrica, S.A.* (Colombia), China Electric Power and Equipment Technology Co Ltd (China), *Consorcio Chiriquí Transmisora de Energía* (Spain), *Consorcio Four Seasons* (India, France and Brazil), and *Consorcio Vasco Núñez de Balboa* (Canada and Spain). China Electric Power and Equipment Technology Co Ltd and *Interconexión Eléctrica S.A* provided their final bids on April 9, 2019. It is by far the largest project contemplated by the expansion plan and is expected to represent an investment of approximately \$550 million. The project is expected to contribute to the stabilization of the ST, reducing nationwide shortfalls from current levels of approximately 4% to 1.5%-2.0%. The winner of the bidding process will develop the project as a private investor with no recourse to ETESA, pursuant to a 20-year term Build, Operate and Transfer (BOT) contract. The contract

process for the fourth transmission line is ongoing and subject to the review and approval of multiple governmental agencies in accordance with Panamanian law.

On February 15, 2019, ASEP issued resolution AN No. 13131 expressly ordering ETESA to abstain from carrying out the public bid for the construction to the fourth transmission line until said authority approved the optimal date for the commencement of the operations of the fourth Transmission line as well as its optimal operating characteristics. ETESA, within the term prescribed by law, requested ASEP to reconsider its Resolution AN No.13131 and provided sufficient evidence to prove that the optimal date and the optimal operating characteristics had already been correctly determined. By means of Resolution AN No. 13194 dated March 18th, 2019, ASEP resolved favorably the request to reconsider filed by ETESA leaving without effect Resolution AN No. 13131 that had ordered ETESA to abstain from carrying out the public bid for the Fourth Transmission Line.

As part of the expansion plan we have also undertaken 21 short term projects ranging from adding transformers, building new substations, increasing capacity in existing transmission lines, adding capacitor banks to existing substations, adding new lines between substations and building new underground lines. These projects were expected to be completed by the 2017-2020 term, with three projects having since been cancelled. As of December 31, 2018, total cost associated with the short term projects are expected to be U.S.\$283.8 million.

Capital expenditures were U.S.\$384.1 million, U.S.\$53.9 million and U.S.\$67.0 million in 2018, 2017 and 2016, respectively. The sharp rise in capital expenditure in 2018 was due to the final construction of the third transmission line, which became operational in October 2017 and was fully capitalized in 2018.

Employees

We employed 505 employees in 2016, 518 employees in 2017 and 528 employees in 2018. The three provinces with the greatest concentration of employees located in the Panama, Coclé and Chiriquí provinces. As of February 28, 2019, we employed 509 employees, 502 in permanent modality and seven under a temporary agreement. We have not experienced a significant change in the number of employees in the past few years.

As of December 31, 2018, approximately 95.4% of our employees were covered by a collective bargaining agreement with the SITIESPA, which went into effect on January 2015 and ended on January 2019. There has been no agreement on a new collective bargaining agreement, as such, the 2015-2019 agreement remains in place. We have not experienced any strikes or walkouts in the last five years. Our employees are entitled to a variety of benefits both required under the labor laws and in addition to those requirements.

Property

Our main property assets are power lines, substations, connections, rights of way and automobiles, all located throughout Panama. As of December 31, 2018, we owned 3,395 km of power lines and a maximum power transformation capacity of 2,603 MVA (at 230KV). Our principal offices in Panama City are leased, with the exception of the CND and certain offices located within the substations which are owned in fee simple.

Our main administrative offices are located at *Avenida Ricardo J. Alfaro, Corregimiento de Bethania* in the *Edificio Plaza Sun Tower Mall* building in Panama City. Within this building, we lease multiple spaces for a total office space of 4,594.52 square meters at a cost of U.S.\$2.5 million for the 2017-2019 period. We are currently negotiating a three year extension to this agreement.

For the 2017-2019 period we also leased an area of land used to access the communications center at *Cerro Penon*, for an annual cost of U.S.\$4,200.

Legal Proceedings

We currently face litigation brought by landowners, workers, subcontractors and bidders in our procurement process. Landowners litigation mainly stem from negotiating indemnities for the establishment of

rights of way for construction or maintenance activities or alleged damages in connection with such activities. Labor dispute include disputes from the labor union under the collective bargaining agreement and from individual employees for adjustment of salaries or benefits. As to bidders in our procurement process, disputes include losing bidders contesting our decision to award projects.

We have one claim for damages of an approximate potential total of U.S.\$98 million stemming from our award of a bid for a wind power related project. The concession was awarded for 14 years starting from 2014 to 2028, and claimants request damages of approximately U.S.\$7 million per year of the concession. On 2011, Helium Energy Panama S.A. ("Helium"), initiated a formal process to have us reconsider our award of the wind power related project to another bidder, which we denied on December 2011. Helium then filed an administrative bid protest law suit before the third chamber of the Supreme Court claiming that the project should have been awarded to it because, among other reasons, (i) the award should have been provided to the lowest bidder on the basis of price only, and that its bid should have been considered; and (ii) the winning bidder did not comply with the requirements of the bidding documents, in particular with formalities relating to the bank guarantee. Final arguments and briefs have been made to the Supreme Court by both parties and a decision is pending shortly. The Supreme Court's decision will be final and binding. Our internal legal counsel has assessed that the likelihood of an adverse outcome is remote.

In 2018, Odebrecht initiated an arbitration proceeding against us before the arbitration center of the Panama Chamber of Commerce. Odebrecht claimed damages for U.S.\$35 million for costs incurred in the construction of the third transmission line. On November 2018, we settled, with the *Refrendo of the Contralor*, the dispute by agreeing to and paying U.S.\$17 million. As part of the settlement agreement, we also agreed to pay 7% of VAT, which is still outstanding.

In 2018, Enel Fortuna filed an administrative bid protest law suit before the third chamber of the Supreme Court claiming that it was unfairly disqualified because, among other reasons, we were not flexible in the application of procurement rules and standards. Plaintiff is requesting U.S.\$18.9 million in damages plus legal fees. The Supreme Court's decision will be final and binding. We have not made a provision for this litigation.

In 2017, ASEP fined and the CND fined us \$750,000 for a four hour and ten minute long nationwide black out that occurred in 2013. The blackout was caused by a fire which was addressed promptly by the company. We are appealing ASEP's decision with the Supreme Court and expect a final decision shortly. The Supreme Court's decision will be final and binding.

In July 2017, ASEP opened an investigation against us for several regional blackouts that occurred in March of that year. The blackouts were caused by the explosion of two transformers and one substation. ASEP announced that the fine could reach up to U.S.\$10 million.

In July of 2017, another nationwide blackout occurred when a tree branch hit a transmission line. As of February 2019, we have not been notified of any investigation against us for this incident.

Insurance

We have comprehensive insurance policies to protect our fixed assets and to cover other operating risks. Coverage is provided by means of a multiple risk industrial policy, which includes physical damage, breakdown of machinery, earthquakes and natural disasters. Our policies do not cover business interruptions damage suffered as a consequence of acts of terrorism. Our general coverage covers up to U.S.\$25 million in damages and we also have specific coverage of \$3 million for our transmission lines. In addition, our insurance policies cover all vehicles including materials, equipment transport and imports. Additionally, we have also provide our directors and officers with liability insurance coverage for up to U.S.\$10 million. We currently have insurance policies from *Internacional de Seguros* and *ASSA Seguros*. We believe that we have suitable insurance coverage that is in conformity with industry practices. We are currently disputing a U.S.\$2.5 million claim with our insurance provider.

Regulatory Environment

There are several laws that are relevant to our operations and to which we are subject to in the course of our business. These include:

Law No. 26 of January 29, 1996. The law provides for the creation of our regulatory entity, ASEP.

Law No. 6 of February 3, 1997. The law provides for our regulatory framework and for an exclusive monopoly over Panama's electricity transmission services to ETESA. The monopoly provided under the law is in addition to our concession which runs until 2024, and in the unlikely event the concession was not to be renewed, the law would need to be amended in order to allow another company to own and operate Panama's national transmission network. The law also sets the tariff system, the services that must be provided and the rights and obligations that we have under the electricity transmission system and the energy sector as whole.

Executive Decree No. 22 of June 19, 1998. The decree implements Law No. 6 by establishing the regulatory and institutional framework for the provision of electricity. The decree establishes the process of the expansion plan of the ST. Further, the decree regulates aspects related to concessions and licenses, government intervention, consumer protection and elements related to transmission and distribution.

Public Contract Law No.22 of June 27, 2006. The law provides for the procurement rules and practices which are applicable in the public sector and generally to us, as an exclusive concessionaire. The law provides that projects for design, construction, equipment, operation and maintenance of equipment for electric transmission and other related activity may be bid out. Under the law, we can develop direct projects or can participate through private agents by means of any permitted contractual alternatives.

Decree No. 26 of April 18 of 2018. The decree approves a special procurement regulation and practices for the procurement of supplies, maintenance and spare parts necessary to maintain the public service provided by ETESA. The Decree governs contracts of up to U.S.\$ 750,000. Any controversies arising of any procurement contracts bid under Law No.22 of 2006, will be subject to regulations and rulings of the General Directorate of Public Contracts of the Ministry of Economy and Finance and the Public Contracts Tribunal.

Corporation Law (Ley de Sociedades Anónimas) No. 32 of February 26, 1927. The general corporation law of Panama, which we must follow as a *sociedad anonima*.

Additionally, one draft bill still being considered by the National Assembly, Draft Bill No. 573, is intended to lower our regulatory burdens associated with having to comply with public sector procurement, salaries and budgeting. It also proposes the incorporation and implementation of best corporate governance practices over public sector practices. The draft bill was originally proposed in October 10, 2017 and subsequently considered by the National Assembly and is still pending debate and approval.

We are also subject to the supervision and policy prescriptions from several governmental agencies in Panama. These include the following:
ASEP

The 1996 Regulatory Entity for Public Services Law established the *Ente Regulador de los Servicios Públicos*, an autonomous government agency with responsibility for regulating water, telecommunications, electricity and natural gas. Pursuant to Decree Law No. 10 of February 22, 2006, the *Ente Regulador de los Servicios Públicos* was restructured and changed its name to *Autoridad Nacional de los Servicios Públicos*. ASEP is managed by a general administrator, whose appointment is subject to ratification by the National Assembly.

ASEP's responsibilities include:

- ensuring compliance with sector laws and Panamanian regulations and applying sanctions;
- issuing concessions and licenses;

- monitoring quality of service standards;
- verifying fulfillment of expansion and system improvement targets as required by law, regulation or under the terms of specific concessions or licenses;
- promoting competition and investigating monopolistic or anti-competitive practices;
- determining efficiency criteria for evaluating the performance of regulated companies;
- establishing the principles and methodologies for tariff regulation;
- determining information to be provided by public service providers;
- arbitrating conflicts between operators, government agencies, municipalities and consumers; and
- authorizing land expropriation and rights of way for service expansion.

ASEP is our primary regulator. We are the only company in Panama authorized by ASEP to provide high voltage transmission services for the ST.

We are also subject to several regulations issued by ASEP for the power sector in general, which include among others, the Transmission Regulation (*Reglamento de Transmisión*), Operation (*Reglamento de Operación*) and Purchase Regulations (*Reglamento de Compra*).

SNE

The SNE is part of Presidency of the Republic and develops the energy policy for Panama to ensure that it guarantees a competitive supply of electricity. Such supply is mandated to be sufficient to meet the demand of the country while being economically viable, high quality and environmentally sustainable. Its primary objectives are:

- guarantying the security of the energy supply;
- promoting access to electricity throughout the country;
- promoting the rationing and efficient use of electricity;
- promoting research and development of Panama's natural resources, including renewable and clean energy sources;
- promoting the use of energy in a sustainable way;
- supporting the implementation of regional electricity interconnection; and
- complying with the commitments to mitigate and to adapt to climate change.

These objectives must comply with the National Development Plan of Panama and must meet the economic, competitive and quality parameters set by the Republic.

Energy Policy Commission (Comisión de Política Energética, "COPE")

The electricity sector in Panama also relies on the Ministry of Economy and Finance (*Ministerio de Economía y Finanzas*, MEF), which through the COPE, formulates policies and defines the strategy of the energy sector. The objectives of the commission are to:

- formulate, strategically plan and establish policies for the energy sector.

- ensure compliance with the energy policies established in the energy sector.
- advise the executive branch on matters of its competence.
- propose the necessary legislation to enact energy policies and the execution of the energy strategy.

Comptroller General (Contraloría General de la República)

As a State owned company, the Comptroller General has the legal authority to review the use and disbursement of ETESA's funds.

Ministry of Environment

In July 1998, the Panamanian government enacted Law 41, which created the National Environmental Authority (*Autoridad Nacional del Ambiente*), which was replaced by the Ministry of Environment pursuant to Law No. 8, dated March 25, 2015. Law No. 8, jointly with Law 41 and other supplemental regulations, also sets out the legal framework for the protection of the environment through the sustainable use of natural resources. The Ministry of Environment is responsible for implementing Panama's environmental policy with the collaboration of other government entities it creates and supervises, such as the Environmental National Council (*Consejo Nacional del Ambiente*) and the Environmental Consultative National Commission (*Comisión Consultiva Nacional del Ambiente*). The Ministry of Environment has the ability to impose all applicable environmental sanctions and fines. Under Law 41, as amended by Law No. 8, the Ministry of Environment may impose fines for any violation of Law 41, including the improper use of water concessions or water resources without having the applicable concession.

In addition to administrative liability, Law 41, as amended by Law No. 8, also establishes civil and criminal liability for violations thereof, and Law 5 of 2005 has introduced environmental crimes into the Penal Code, including crimes against wildlife, natural resources and crimes related to approval of and compliance with environmental documentation.

Environmental and Social Responsibility

We maintain a social and environmental management office, the *Gerencia Ambiental y Social* ("GAS"), which has an interdisciplinary team composed of specialists in natural resources, forestry, biology, sociology, environmental rights, management and civil engineering. Its primary objective is to take necessary action and implement strategies to prevent, relieve and compensate the environmental and social impact generated by our operations and construction projects.

Our social and environmental management office guarantees that high voltage transmission line projects fulfill the requirements of environmental and social processes. On the environmental side, it does this by initially developing reference terms for the fulfillment of an environmental impact assessment (ESIA). An environmental consultant is then selected to implement the ESIA, perform environmental audits and other necessary services. The office also then monitors the quality control of the provided services and executes the applicable operation plan. It also coordinates with other stakeholders, such as the Ministry of Environment and other relevant local institutions. The office also maintains, operates and provides training for ecological compensation projects and programs of environmental education. Past initiatives have included, relocating several species of wild flowers and animals that were affected by the construction of the third line; maintaining a reforestation program and monitoring past programs to ensure viability.

With respect to social responsibility, our office acquires easements and rights of ways for transmission line in a legal and respectful way to protect property rights. GAS provides verification of the valuation of the property which is to be used for the transmission lines, engages in direct negotiation with the owners of the property rights in question and undertakes social compensation projects in communities that are directly influenced by a transmission line. Prior initiatives have included the construction of an aqueduct in San Juan, providing an ambulance to the community in Silico Creek and constructing bathrooms for the schools in Altos del Valle.

GAS is in constant communication with the local communities that might be affected by our operations

construction or maintenance activities. GAS also negotiates and discusses with local native populations on re-location, and compensation matters. Historically, relationships with land owners have been positive and stable. We have had only one instance in which an expropriation procedure had to be invoked.

INDUSTRY

The Panamanian electricity sector has evolved in three distinguishable stages. From 1886 to 1960, the electrical service was provided to the public by a group of small businesses in the cities of Panama, Colon and the rest of the provinces. During the period from 1961 to 1998, the service was provided by the state monopoly represented by the IRHE. In 1996, the approval of Law 26 created the Public Services Regulatory Entity (*Ente Regulador de los Servicios Públicos*, ERSP), and the approval of Law No. 6, began a restructuring and privatization of IRHE, which resulted in the formation of eight companies to provide the electricity service to the public. Of these, four were electrical generation companies, three electrical distribution companies (ENSA, EDEMET and EDECHI) and ETESA as the sole transmission company. Today, the generation market is largely privatized. Transmission and distribution are still monopolistic in nature, with concessions being awarded by the state and with the state either completely owning the company providing the services, as in the case of transmission, or partially owning them, as is the case of distribution.

Electricity Market

In Panama, the electricity market, as in other countries, is made up of participants that play different roles. These participants consist of: generators, distributors, transmission companies and large scale consumers.

Generators. These are market participants that produce energy for sale at the wholesale level. These participants in the market can be classified as a generators (those that produce electricity to be marketed to third parties), self-generators (those that produce and consume electrical energy as a byproduct of their industrial process and that do not market or distribute to third parties or associates, but which may sell surpluses to us and other market participants), co-generators (those that produce electrical energy as a by-product of an industrial process and whose primary purpose is to produce goods or services other than electric power, can sell energy to ETESA and other market agents) and international interconnections (set of transactions related to the transfer of energy and power between countries). Tariffs in the generation business are dependent on market prices. Generators must either have a concession or a license to operate in the market and are a mix of private and state-private owned enterprises. While after the IRHE restructuring there were four generation companies, this number has since increased substantially to approximately 31 hydroelectric, 15, solar, 14 thermal and two wind power generation companies as of the date of this offering memorandum.

Distributors. These are the market participants who buy electricity at the wholesale level for their own consumption or that of their retail customers. The distribution market is operated by three distribution companies EDEMET, ENSA and EDECHI. They operate in an exclusive geographical area and are required to secure long-term contracts for all regulated customers and their associated energy demands. The three companies are public-private partnerships with the state holding ownership levels of 48%-49% and operating under a concession expiring in October 2028. Concessions have historically been awarded for 15-year terms. Tariffs for distributors are regulated by ASEP.

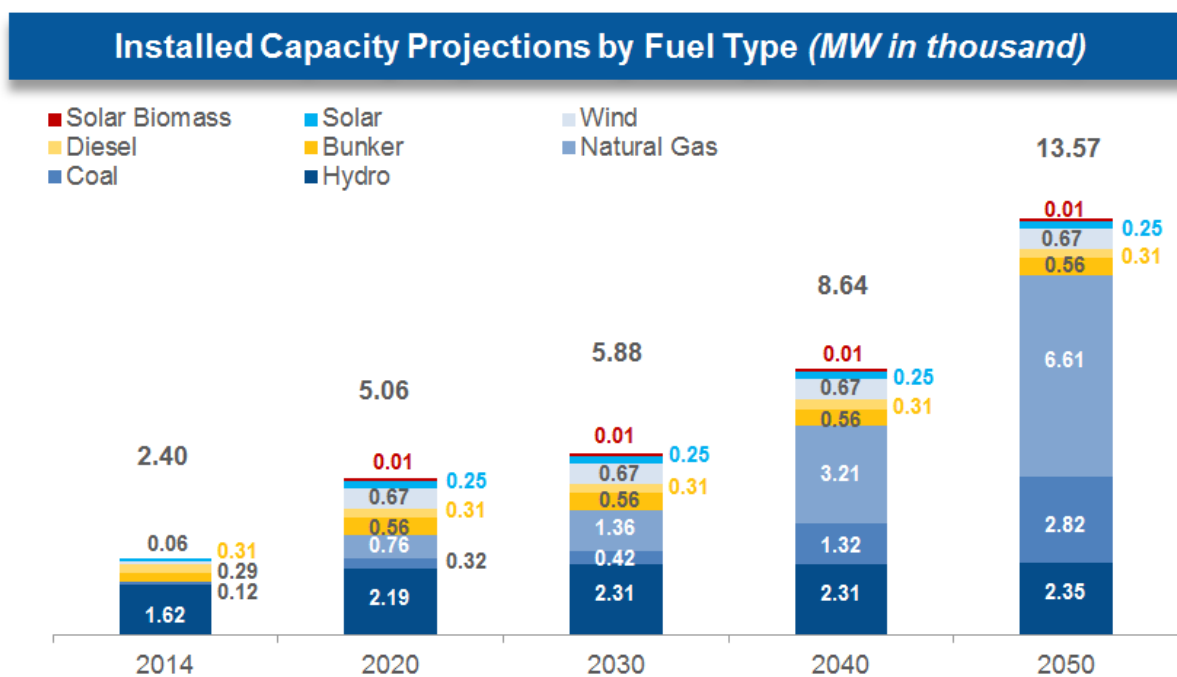
Transmission. Those that have a concession for the transmission of electricity. The only transmission company allowed to operate in the Panamanian electricity market through the ST is ETESA. Tariffs are regulated by ASEP based on a maximum permitted income and other components.

Large scale consumers. Those are the market participants who have energy requirements greater than 100Kw per site.

Installed capacity

The total installed capacity in the Republic of Panama for the year 2018 was 3,849.25 MW, of which 45.99% (1,770.42 MW) corresponds to hydroelectric plants, 42.21% (1,624.72 MW) to thermal plants of different technologies, 7.02% (270 MW) to wind energy and 4.78% (184.11 MW) correspond to solar. As of December 2018, Panama had a total installed electric capacity of 3,849.25 MW, with another 300MW installed in February 2019.

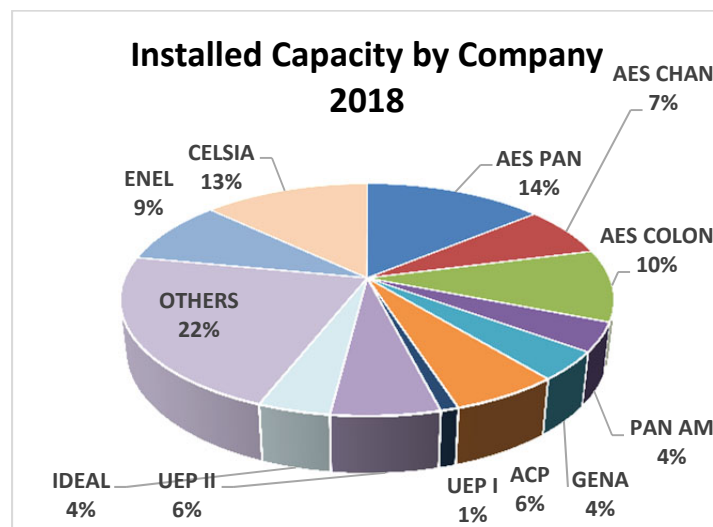
The *Plan Energetico Nacional 2015-2050*, published by the SNE, included the following installed capacity by type of generation projections. Such projections are prepared for planning purposes by the SNE. There is no assurance that such projections will in fact materialize and actual outcomes may be materially different:



Source: SNE

Installed capacity classified by producers for the year 2018.

The chart below provides the installed capacity by producing entity, the largest being AES Panama, representing approximately 14%, Celsia approximately 13%, AES Colon 10%, Enel approximately 9%, AES Changuinola approximately 7% Union Eolica Penonomé II, S.A (“UEP”) 6%, the Panama Canal Authority (“ACP”) 6%.



Source: ETESA

Note: Figures may not total to 100% due to rounding.

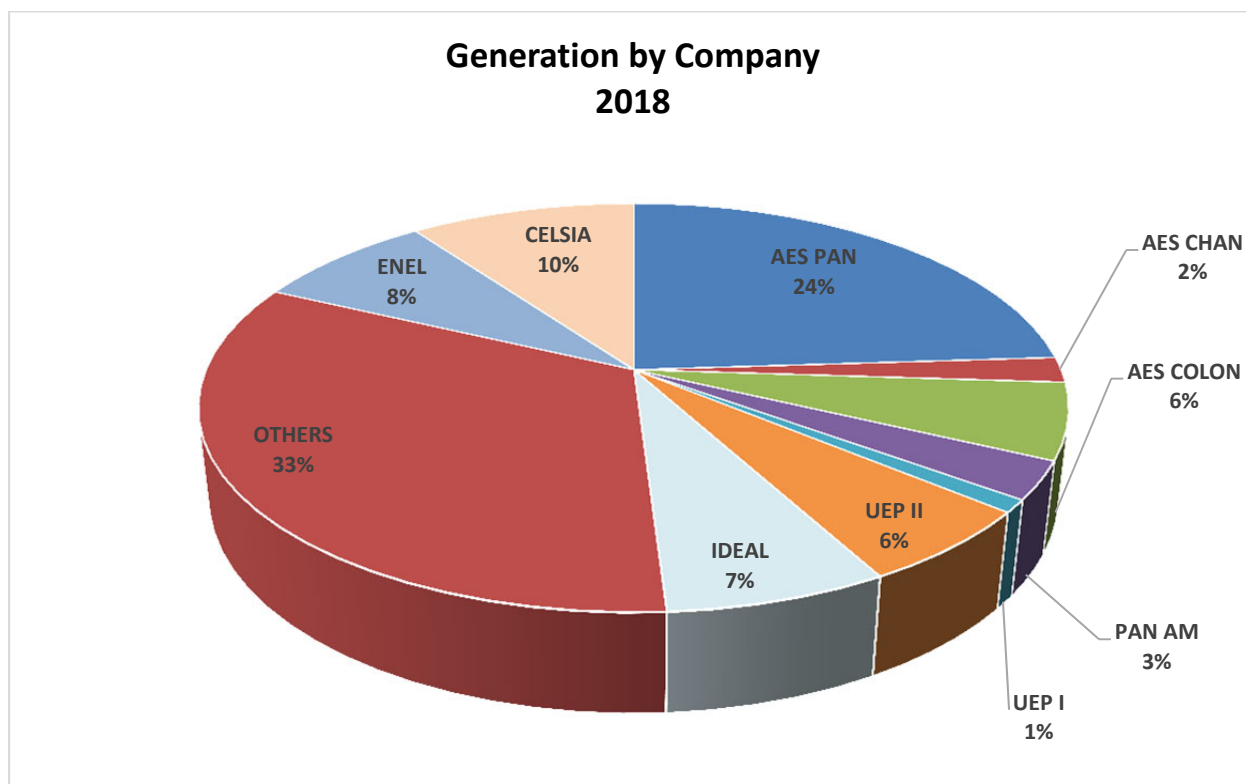
Generation

The total gross generation for 2018 in Panama was 10,783.5 GWh, including the national integrated system, which represent the total production of the self-generators and other isolated systems.

During 2018, electricity generation by plant type was 72% from hydroelectric generation plants, while thermal plants generated 21%. The wind power generation plants contributed 6%, while the solar plants, which first became operational in 2015, 2016 and 2017, contributed to 2% of the total generation of the system.

The chart below shows generation by company, the largest being AES Panama representing approximately 24%, Celsia with approximately 10%, ENEL with approximately 8%, IDEAL with approximately 7% and UEP II with approximately 6%.

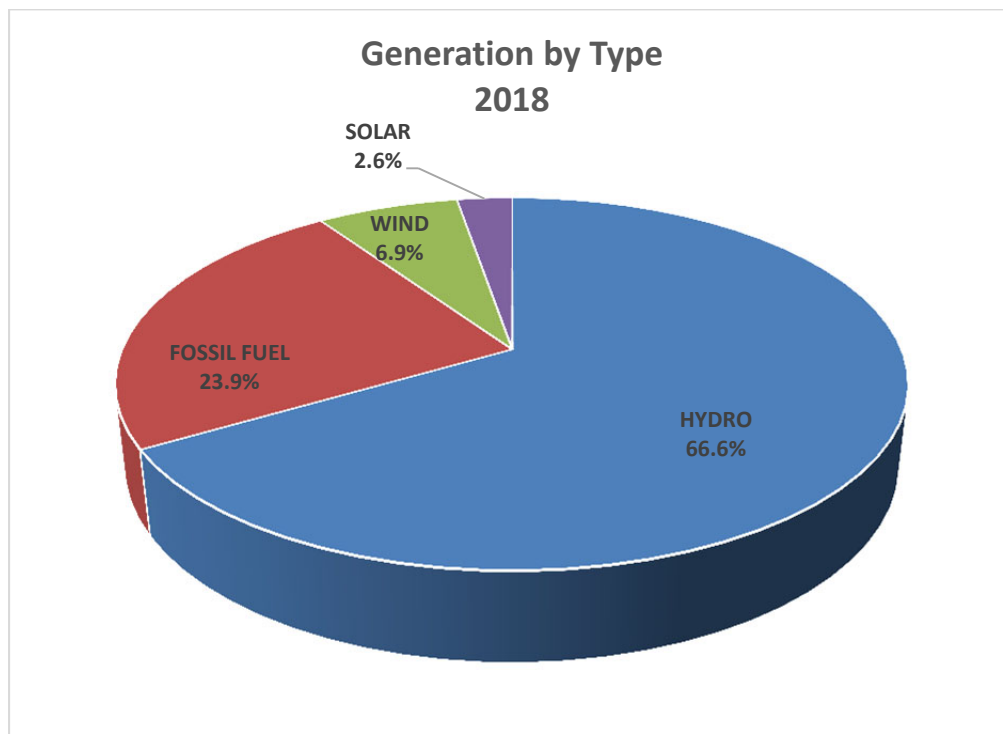
The chart below shows generation by company in 2018:



Source: ETESA

Note: Figures may not total to 100% due to rounding.

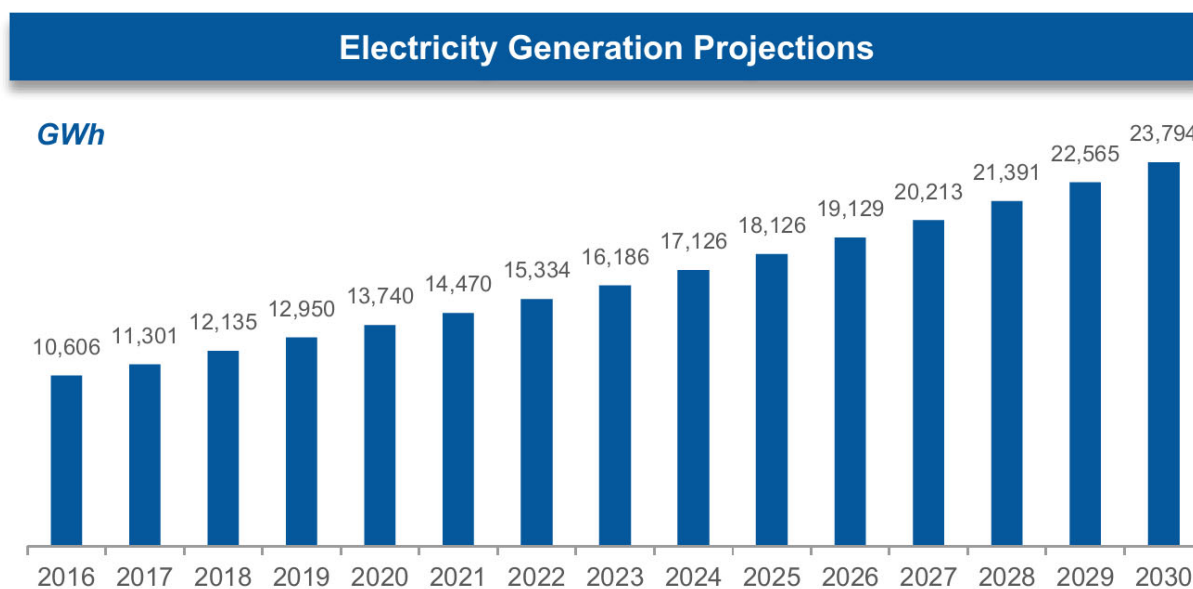
The chart below shows generation by type in 2018:



Source: ETESA

Note: Figures may not total to 100% due to rounding.

The chart below provides electricity generation projections until the year 2030. There is no assurance that such projections will in fact materialize and actual outcomes may be materially different:

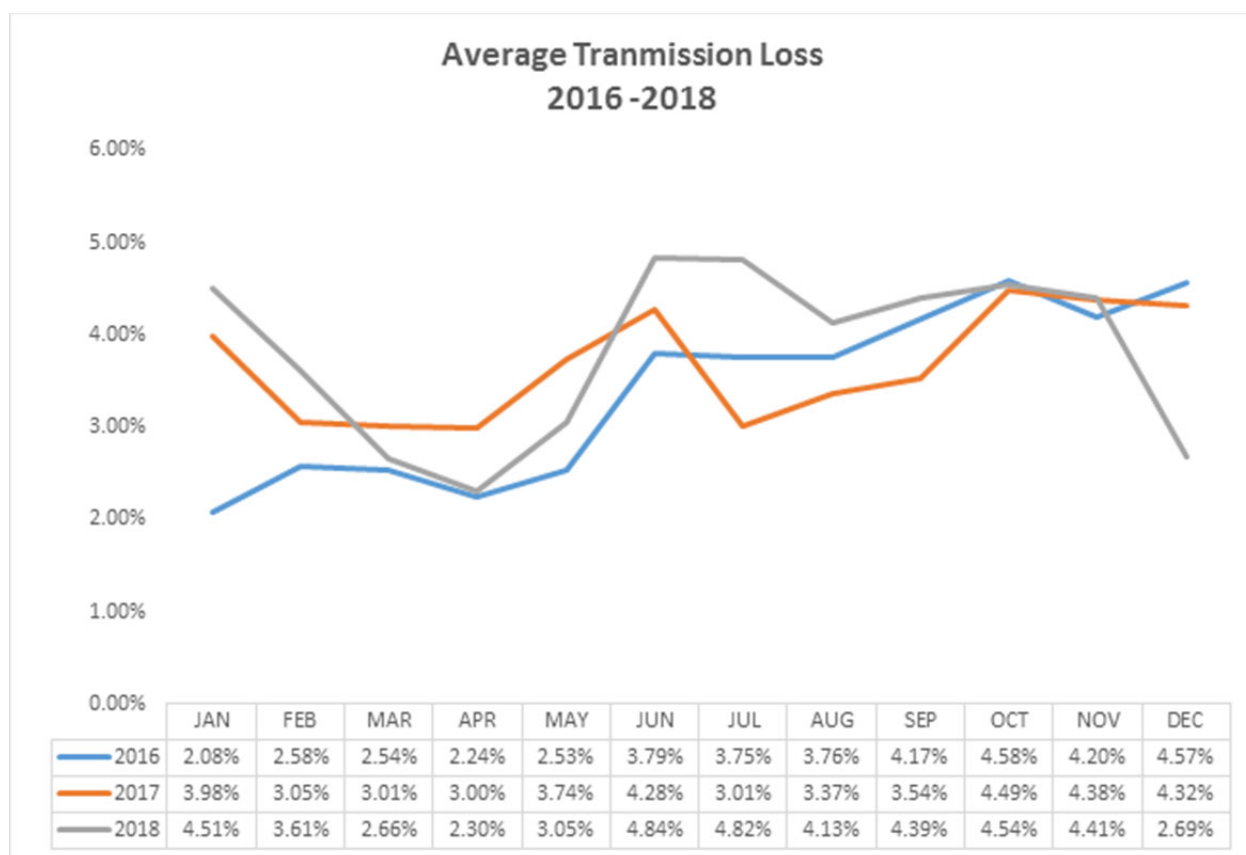


Source: SNE

Transmission

The national transmission network is made up of the high voltage transmission lines, substations, transformers and other electrical elements necessary to receive the electric power produced by the generating plants and to transport it to the different delivery points. The length of the 230 kV lines of the system, in 2018, reached 3,088.10 km., while the length of the 115 kV lines is 306.90 km. Together they form a total of 3,395.00 km of line throughout the system.

The transmission system experiences a certain level of losses in part due to the distances involved between generation producers and consumers. In 2018, these varied from a minimum of 2.30% up to a maximum of 4.84% in June. This is mostly due to the higher production in June of electricity generated by hydroelectric plants due to the rainy season and the location of the plants in the western part of the country, which is far from the primary consumption center of Panama City and surrounding areas.



Source: ETESA

For the past three years, there has been very little variation in the annual average of transmission losses, with recorded average losses of 3.4%, 3.5% and 3.82% in 2016, 2017 and 2018. The greatest losses of the transmission system occur during the months of greatest hydroelectric generation, mainly from the Fortuna, La Estrella, Los Estles, Changuinola, Ideal Panama, Hydro Caisán and other hydroelectric plants located in the western part of the country.

Distribution

In Panama there are three companies that hold the concession to be the sole distributors in the electricity sector:

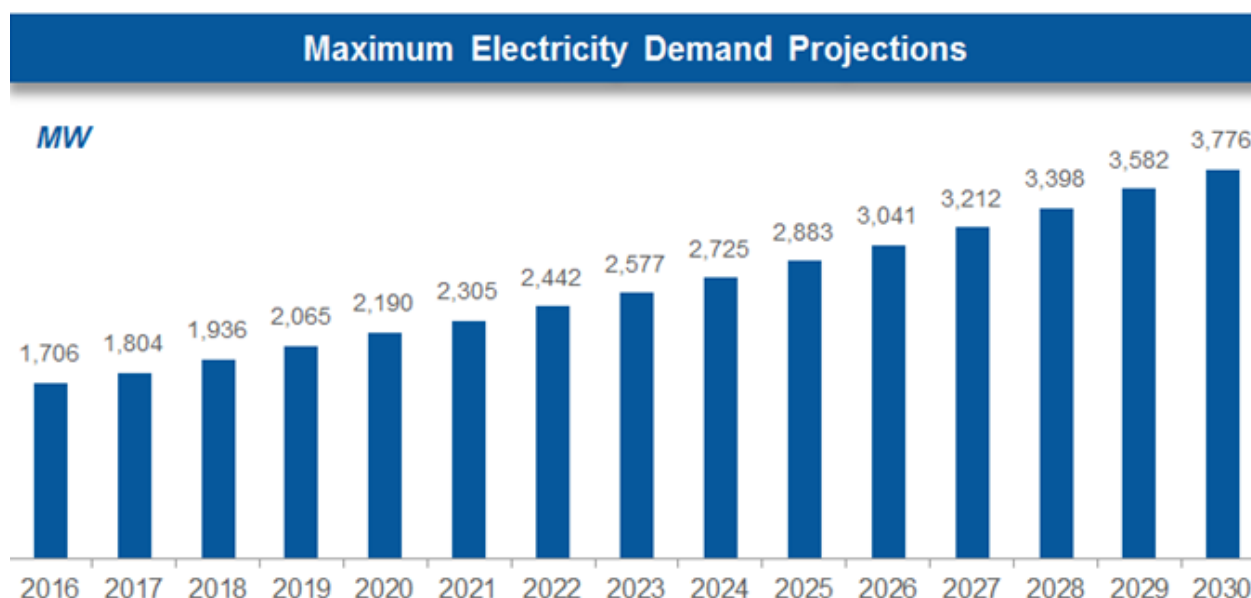
- EDEMET**, has a concession area comprised of provinces of Veraguas, Coclé, Herrera, Los Santos, the province of Panama west of the Panama Canal, and the western part of the Panama City, including the Metropolitan Natural Park, the Camino de Cruces National Park, the Soberanía National Park, and the Cabuya River Agroforestry Farm. EDEMET has 15,404.71 kilometers of overhead lines and 2,392.51 kilometers of underground lines, totaling 17,797.22, which corresponds to 50% of the total distribution lines. EDEMET is 49% owned by the government of Panama and 51% owned by Naturgy Energy Group (rated Baa2 by Moody's, BBB by Standard and Poor's and BBB by Fitch Ratings).

- **ENSA**, has a concession area comprised of are between the provinces of Darién, Colón, the part of the province of Panama east of the Panama Canal (except the parts covered by the concession of EDEMET), the San Blas District and the Gulf of Panama Islands. ENSA has 10,521.01 km of overhead lines and 999.96 km of underground lines, for a total of 11,520.97 km, corresponding to 32% of the total distribution lines for 2017. ENSA is 48.25% owned by the government of Panama and 51.75% owned by Empresas Públicas de Medellín (rated Baa3 by Moody's and BBB by Fitch Ratings).
- **EDECHI**, has a concession area comprised of the provinces of Chiriquí and Bocas del Toro. In 2018, EDECHI owned 6,383.68 kilometers of overhead power lines and 177.73 km of underground power lines, for a total 6,561.41km of power lines, which represented 18% of the total distribution lines in 201. EDECHI is 49% owned by the government of Panama and 51% owned by Naturgy Energy Group.

In 2018, there were 1,104,137 customers serviced by the distribution system. There were 490,458 customers, or 44% customers, located in EDEMET's concession area, 456,729, or 42% of customers, located in ENSA's concession area and 156,950 customers, or 14% of customers, located in EDECHI's concession area.

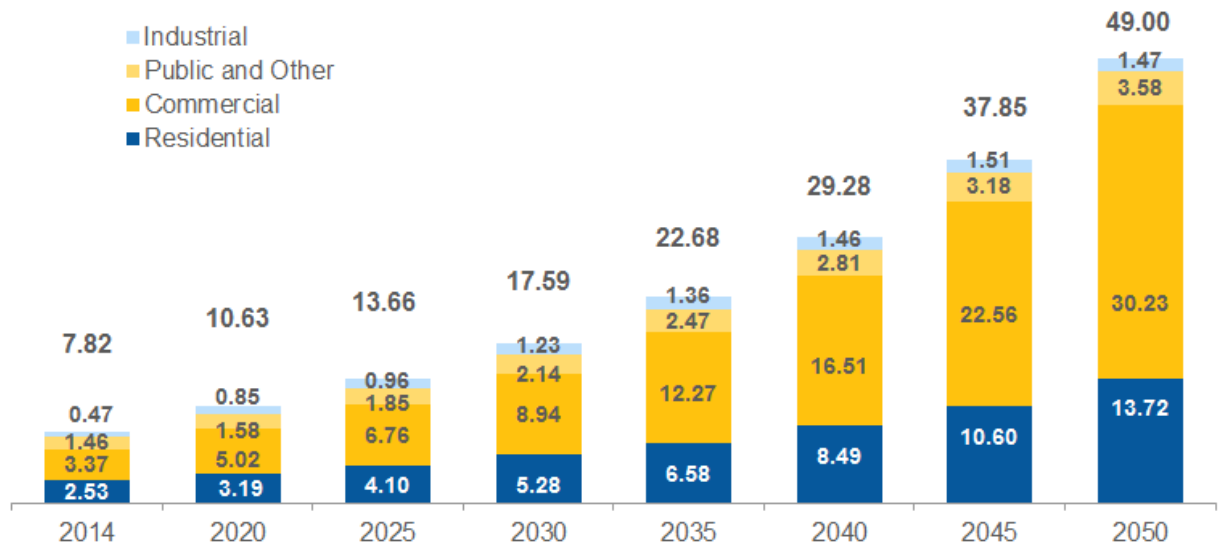
Demand

Maximum electricity demand is projected to increase as a whole and by costumer type in the short, medium and long term. The following tables show projections of maximum electricity demand in general and by costumer type. There is no assurance that such projections will in fact materialize and actual outcomes may be materially different:



Source: SNE

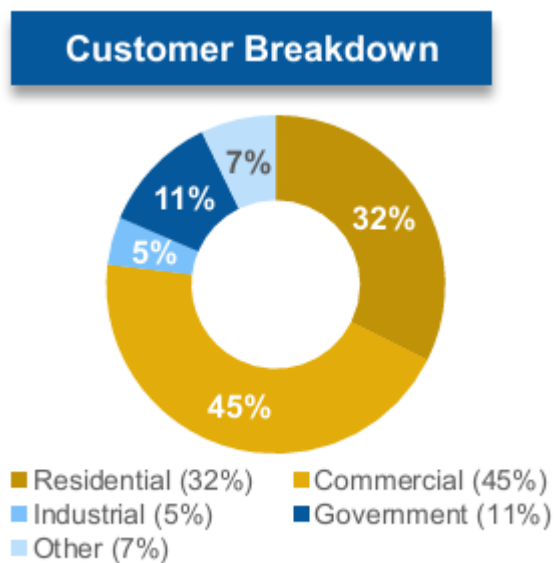
Consumption Projections by Customer Type (GWh in thousands)



Source: SNE

Consumption demand by customer type is projected to increase through 2050. The sector with the highest projected increase is the commercial sector, followed by the residential, public and industrial sectors.

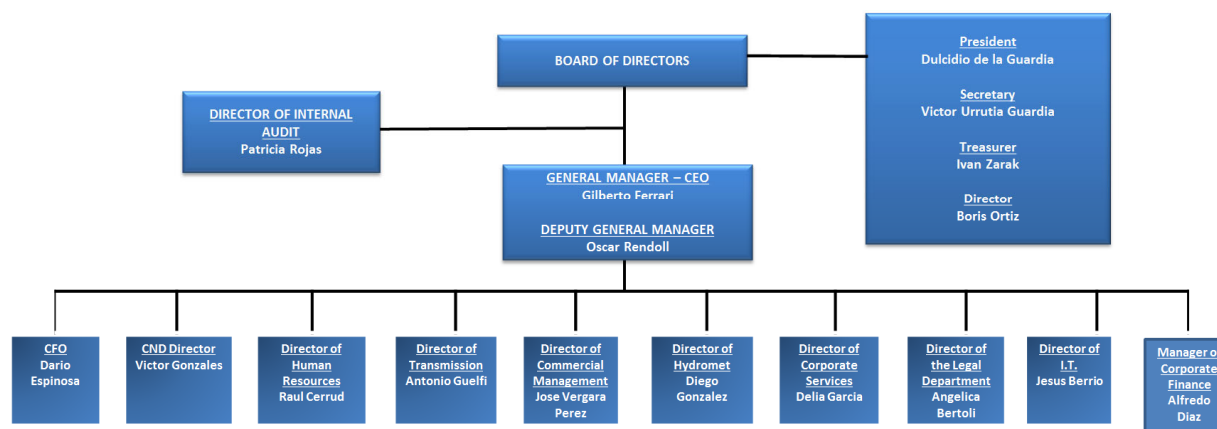
The graph below provides our customer base breakdown for 2018:



Source: ETESA

MANAGEMENT

The following chart depicts our current organizational structure. Our primary governing body is our board of directors, which historically was presided by the Minister of Economy and Finance of Panama. Board of directors appointments are at will appointments made by our single shareholder, the Government of the Republic of Panama. On May 5, 2019, presidential elections are taking place, with a new government set to take office on July 1, 2019. The new government may elect to change the composition of our board. Additionally, our senior management consists of eleven professionals with expertise in different fields, each with an average of 22 years of experience.



Board of Directors

The following sets forth selected biographical information for members of our board of directors.

Dulcideo de la Guardia – President

Mr. de la Guardia is the chief operating officer of the Grupo Morgan & Morgan and was the Minister of Economy and Finance of the Republic of Panama, director of the private bank, executive vice president and vice president of banking and investment at the Banco Continental de Panamá, S.A. Mr. de la Guardia was a director of the Bolsa de Valores de Panama, Elektra Noreste, Progreso & Profuturo AFP, Primer Banco del Istmo, S.A., HSBC Banco (Panama), S.A. Central Latinoamericana de Valores (Latinclear), CAF and the *Cámara Panameña de Mercado de Capitales* (CAPAMEC). Mr. de la Guardia received his bachelor's degree from Florida State University, an MBA from Loyola University and is a certified financial analyst by the CFA Institute.

Victor Carlos Urrutia Guardia – Secretary

Mr. Urrutia is the acting National Secretary of Energy. He received a Ph.D. in Physics from Perdue University. Mr. Urrutia is an electrical engineer and has been involved in the electricity sector since the 1970s, as an independent consultant in feasibility studies, market, surveys and other engineering projects inherent to the development of the Panamanian energy sector. In 2009 he was the General Administrator for Public Services where he distinguished himself by ordering the allocation of concessions and licenses for power generation, and reformulated auctions for the allocations of these resources. He is credited with the development of the process for long-term electric supply bids in the electricity market. He is a member of the *Asociación Panameña de Ejecutivos de Empresa*, of the *Sociedad Panameña de Ingenieros y Arquitectos*, of the Institute of Electrical and Electronics Engineers and of the Rotary Club of Panama.

Iván Zarak – Treasurer

Mr. Zarak graduated with a bachelor's degree in industrial engineering from Texas A&M University in 1995 and has received an MBA with honors from INCAE in 1999. He has more than 15 years of experience in the banking and financial sector and is the former Vice Minister of Finance of Panama. He was an Associate in the operations department of BankBoston, Panama (1996-1997). After receiving his MBA he was part of the initial team at *Mesoamérica* in Costa Rica (1999-2002). He worked as vice president of investment banking at Banistmo Securities (the investment bank branch of *Grupo Banistmo*, 2002-2007), leading the corporate finance team of such institution and supporting the bank in its acquisition process. Mr. Zarak was also the founding partner of Portobelo Capital (1997-2010), a company that was the genesis of *Banco Prival*, where he worked as vice president in charge of commercial banking (2010-2013). Currently, he is the founding partner of Zarak Capital Corp., an independent company through which he advises clients in matters related to corporate finance and mergers and acquisitions. He has been involved transactions representing amounts of more than \$1.5 billion in bond issues, syndicated loans and in mergers and acquisitions.

Boris Ortiz – Director

Mr. Ortiz graduated with a degree in electrical engineering and electronics from the *Universidad Tecnológica de Panamá* in 2004. He has worked at ETESA since 2007 and acts as a representative of the employees at ETESA's board of directors.

Management Team

The following sets forth selected biographical information for members of our management team.

Gilberto Ferrari Pedreschi – General Manager (Chief Executive Officer)

Mr. Pedreschi has a degree in industrial engineering and a MBA with a concentration in Finance from ULACIT. He has been working at ETESA since 2017. Prior to his work at ETESA, he has worked in the public and private sector in the field of strategic planning in the electricity sector of Panama. He was the CEO of Panama Power Holdings from 2008 to 2017 where he was responsible for the development and performance of various hydroelectric projects totaling over \$ 400 million.

From 2005 to 2008 he served as the CEO of the special economic area of Panama-Pacific. He has also held management positions in companies such as *Telefonica Moviles Panama, S.A.*, BellSouth Panama, S.A., Everfit Industries and Bonlac, among others.

Darío Espinosa – Chief Financial Officer

Mr. Espinosa graduated from Universidad Latina in Panama and has a master's degree in Business Administration from INCAE business School. He has more than 15 years of experience in the private and public financial sector of Panama. Until January 2016 he was executive partner of the firm SFC Investment, S.A. in charge of the Vice-presidency of institutional business and investment banking. He was vice Minister of Finance, director and Deputy director of Public finance at the Ministry of Economy and Finance, where he led transactions for more than \$10 billion. He has been part of important banking groups, such as HSBC and MMG bank Corporation. Prior to joining ETESA, he provided corporate and financial advisory services to family groups and/or medium and large sized companies in the Republic of Panama.

Victor Gonzales – Director of the National Dispatch Center

Mr. Gonzáles has 26 years of experience in the electricity sector of Panama, where he has held positions in the *Planificación del Sistema de Transmisión* (IRHE and ETESA) and in the CND (since 2000). He is currently the Director of the CND which is in charge of the system operation and administration of the wholesale electricity market. He is a member of the board of directors of the *Ente Operador Regional* where he has also participated in several technical working committees over the years in that institution. He has been a member of the *Comité*

Operativo del Mercado Eléctrico de la República de Panamá, where he acted as President of the committee, and member of the *Grupo de Operadores de Sistemas de la Comisión Regional de Interconexión Eléctrica*.

Patricia Rojas – Director of Internal Audit

Ms. Rojas is authorized public accountant and has a bachelor's degree in accounting, with more than 22 years of professional career in accounting, finance and auditing. She was senior auditor for BDP Panamá and has held management positions for various companies such as LG Electronics Panamá, S.A., UETA Inc. And Isuzu Motors International Operations Panamá, S.A. She is a member of the Institute of Internal Auditors, Panama Chapter and of the *Colegio de Contadores Públicos Autorizados*.

Raul Cerrud – Director of Human Resources

Mr. Cerrud has more than 15 years of experience in the area of human resource management. He began his career in human resources administration at the former IIRHE, and subsequently strengthens this experience at ETESA, where he is currently Director of Human Resources. He has a bachelor's degree in human resources management from Columbus University (2006), and an MBA with an emphasis in business management from Universidad Latina (2009).

Antonio Güelfi – Director of Transmission

Mr. Güelfi has a bachelor's degree in electrical engineer with a master's degree in electrical power systems, both degrees obtained in Brazilian universities. With 40 years of experience, holding different positions in various state entities and in private companies. He was national production manager in the former IRHE. In ETESA, he was Director of the National Dispatch Center and currently serves as Director of Transmission. While working at the Panama Canal Authority, he was the dispatch manager and head of the electricity market analysis unit. He has been the manager of the electric market in *Corporación Panameña de Energía, S.A.* and *Cerro Azul Power Generation Company, S.A.* He has been a consultant and expert for different companies in the energy sector of Panama. He was President of the *Comité Operativo de Panamá* and representative of the government of Panama before the board of directors of the *Ente Operador Regional*.

Jose Vergara Perez – Director of Commercial Management

Mr. Vergara has more than 10 years of experience in the electrical Sector of Panama, where he has occupied positions associated to the study of the Electrical network and planning of the energy in the National Center of Dispatch. Electromechanical engineer, graduated from the Technological University of Panama. He currently serves as Director of commercial management, responsible for the management and analysis of the rate for the access and use of the transmission network, and the management of commercial transactions with the big clients and agents of the market. He has been a representative in the Technical Committee of Operational Safety of the regional operator and Technical Committee for the definition of the regional transmission network.

Diego Gonzalez – Director of Hydrometeorology

Mr. Gonzalez has more than 10 years of experience in the area of water resources management. He has a degree in Civil Engineering from the *Universidad Tecnológica de Panamá*. He has a master of science in hydrological resources with a specialty in hydrology. He has worked in the hydrology department since joining ETESA in November 2007. He currently holds the position of director of the Hydromet division.

Delia Garcia – Director of Corporate Services

Ms. Garcia has worked in the energy sector since 1979 at the IRHE when she participated in studies for the preparation of the national energy plan. During her residency in the USA, she worked for 10 years as an editor and consultant at International Languages and Services, a company dedicated to translation, interpretation and market

research services in the Arlington, Virginia area. Once she returned to Panama, she was the Director of the *Instituto de Mercado Agropecuario*. She has been part of ETESA since 2011.

Angelica Bertoli – Director of the Legal Department

Ms. Bertoli has more than 20 years of experience in providing legal advice, both in the public and private sectors; especially the maritime sector, administrative law, free zones, public policy, logistics and energy sector. She has a degree in political science and law from the *Universidad de Panamá*, a Masters Degree (LLM) in maritime law, with emphasis on transportation and international trade from the University of Southampton in the United Kingdom and post-graduate degrees from the *Universidad Latinoamericana de Ciencias y Tecnología*, the *Universidad Latinoamericana de Comercio Exterior* and Harvard University.

Jesús Berrio – Director of Information Technology

Ms. Berrio has more than 6 years of experience in technology sector and 5 years in the energy sector. He has a degree in electronic engineering and telecommunications from the *Universidad Tecnológica de Panamá*, a master's degree in management engineering from the University of Louisville, and a post-graduate degree in finance from the *Universidad Especializada del Contador Público Autorizado* and a master's degree in Management and Management in Technology Projects at the *Universidad Pontificia de Salamanca*.

Alfredo Diaz Camarano – Manager of Corporate Finance

Mr. Diaz Camarano has more than 20 years professional experience. Prior to becoming the manager of corporate finance of ETESA, he has worked in the private sector, mainly in the areas of finance, treasury, accounting and administration. He has previously served as deputy chief financial officer of *Cable Onda*, regional CFO of First Data Inc. and senior finance manager of Dell Panama.

Oscar Rendoll – Deputy General Manager

Mr. Rendoll has a bachelor's degree in electrical engineer from the *Instituto Tecnológico de Estudios Superiores de Monterrey* with a master's degree in electrical engineering from The University of Texas at Arlington. With more than 40 years of experience in the Panamanian electrical sector, Mr. Rendoll was national development manager in the former IRHE. At ETESA, he has had the positions of CND, Director of Transmission, Director of Integrated Operations, General Manager pro-tempore and currently serves as Deputy General Manager. He has served as Executive Secretary of the Electrification Council of Central America (CEAC) and representative of the government of Panama before the board of directors of the *Ente Operador Regional*. He is also a senior member of the Institute of Electrical and Electronics Engineers (IEEE) and a member of the Panamanian Society of Engineers and Architects (*Sociedad Panameña de Ingenieros y Arquitectos - SPIA*).

Corporate Governance and Committees

As of the date of this offering memorandum, we have internally adopted certain rules and procedures consistent with good corporate governance practices, as such and to the extent that these are consistent with our current structure under Law No. 6. and otherwise permitted under Panamanian law and regulation. We would expect if Draft Bill No. 573 becomes a law, we would be able to comply with additional good corporate governance practices and more fully implement best governance processes including those relating to the adoption of additional independence criteria for the appointment of directors and adoption of and compliance with internal control processes.

We currently have an audit committee which was created in 2012. The audit committee is tasked with carrying out the internal audit, managing internal control and risk management, accounts audit and the managing the process of internal economic and financial information. We are currently considering the adoption of a compliance committee. Members of the audit committee include Victor Urrutia and Ivan Zarak.

Compensation

Our directors and officers receive a cash compensation based on the payment of *per diems* for attendance at ordinary and extraordinary board meetings in addition to any other compensation. The amount corresponding to such is set biennially, and is currently set at U.S.\$ 750.00 for attendance.

The aggregate compensation paid to the 16 executive officers listed above was U.S.\$1,098,797, U.S.\$1,010,373 and U.S.\$1,152,442 in 2018, 2017 and 2016 respectively.

The total compensation received by key management personnel, directors and chief executives, including allowances, salaries and other remunerations, was U.S.\$2,703,319, U.S.\$2,615,491 and U.S.\$2,191,242 for 2018, 2017 and 2016 respectively.

PRINCIPAL STOCKHOLDERS

Our capital stock consists of 52,000,000 authorized, issued and paid for common shares with no nominal value, representing a total paid-in capital (capital plus additional capital contributions) of U.S.\$193,539,456. All of our shares are 100% owned by the Republic of Panama since our formation in 1998. We have received capital contributions from the Republic of Panama totaling over U.S.\$68.7 million since 2011 and, as a matter of long standing internal policy, we do not pay any dividends to the Republic of Panama. In addition, one of our outstanding loan agreements contains a covenant restricting our ability to pay dividends while such loan remains outstanding.

DESCRIPTION OF OTHER INDEBTEDNESS

On March 26, 2019 a local bond issuance program was approved by the SMV under Resolution No. 97-2019 for the issuance of up to U.S.\$300 million in bonds. Use of proceeds and interest rates of the notes will be determined on a per series issuance. The notes are subject to customary covenants including providing financial statements and continued disclosure, payment of taxes, proper management of the business, related party transactions, use of proceeds, not permitting a change of control, not permitting a change in business and maintaining certain financial covenants. We have not issued these notes, but plan to do so in the near future.

On February 18, 2019, we entered into a U.S.\$50 million revolving credit facility with the Central American Bank for Economic Integration (BCIE). The availability period of the credit facility is twelve months after the execution of the agreement. The proceeds of the loan are to be used for investment to our expansion plan. The maturity of each disbursement and related applicable interest rate will be determined in accordance with the applicable policies and standards of the BCIE. This revolving credit facility contains customary covenants including use of proceeds, reporting requirements, compliance with laws, financial covenant ratios and limitation to incur in additional debt. The revolving credit facility also includes a covenant that prevents us from incurring in further indebtedness, subject to exceptions, without BCIE's prior non-objection. On April 5, 2019 we obtained a waiver from BCIE to issue the notes being offered pursuant to this offering memorandum.

On June 18, 2018, we entered into a U.S.\$30 million credit facility with the Banco Nacional which matures on 2020, and accrues interest at a rate of 6 month LIBOR plus 2% per annum, with a minimum annual interest rate of 3%.

On January 4, 2019, we entered into a U.S.\$50 million loan agreement with Banco General. The loan matures 12 months after disbursement, which in turn is expected to happen at the end of March of 2020. The proceeds of the loan are to be used for permitted indebtedness and other corporate uses. Interest is paid every six months at an annualized rate of LIBOR plus 2%. The loan agreement contains customary covenants including compliance with laws, use of proceeds, reporting requirements, insurance, financial covenant ratios, materially adverse conditions and negative covenants as to the creation of liens, transfer of property, incurrence of debt, not permitting a change in business, dividend and not permitting a change in control.

On August 15, 2018, we entered into a U.S.\$400 million loan agreement with Citibank N.A. as initial lender and administrative agent. The loan matures on September 6, 2021. The proceeds were used for partial repayment of certificates issued for third transmission line, related financial costs, to cover or refinance short-term debt and for other budgetary requirements related to our expansion plan. Interest is paid every three-months at a rate per annum of 2.25% plus LIBOR for such interest period. The loan agreement contained customary covenants including compliance with financial covenant ratios, restriction on dividends until repayment of the loan, reporting requirements and negative covenants as to creation of liens (subject to exceptions) and incurrence of debt (subject to exceptions). We expect to partially use the proceeds of this offering to repay this loan. See "Use of Proceeds".

On October, 2013 we entered into a U.S.\$30 million long term commercial loan and a U.S.\$3 million short term loan with Caja de Ahorros. The long term loan matures within five years of the execution date with an optional extension at Caja de Ahorros' option for an additional five years, renewable for another three years. The use of proceeds for the long term loan was to finance 6.2% of our transmission expansion plan. The use of proceeds for the short term loan was to purchase a fleet of vehicles. Interest is paid on monthly basis at an annual rate of six months LIBOR plus 4%, with minimum annual interest rate of 5.5%. The loan agreement contains customary covenants applicable to both loans including compliance with laws, use of proceeds, reporting requirements, insurance, material adverse conditions, financial covenant ratios and negative covenants as to the creation of liens, prohibition of agreeing to more favorable terms, incurrence of debt, not permitting a change in control, not permitting a change in business and restriction on certain dividends.

RELATED PARTY TRANSACTIONS

As a result of ETESA's ownership by the Republic of Panama and the Republic of Panama's partial ownership of other electricity market participants in generation and distribution capacities, many if not most of our transactions involve related party transactions with such entities. Such entities include, but are not limited to EDEMET, ENSA, EDECHI, AES Panama, AES Changuinola, Enel Fortuna and the Panama Canal Authority. Unless otherwise regulated pursuant to Law No. 6, such as payments under the tariff system, these transactions are undertaken on an arm's length basis.

We provided a loan on January 25, 2010 to an affiliated company, *EPR*. The loan was made on an arm's length basis with a 15-year tenor, including a grace period of two years from the date of first disbursement. The balance receivable under the law as of December 31, 2018 was U.S.\$2,596,154. The interest rate paid by our affiliate was at an annual rate of six month LIBOR plus 2%.

DESCRIPTION OF THE NOTES

This section of the offering memorandum summarizes the material terms of the Indenture and the Notes offered hereby. It does not, however, describe all of the terms of the Indenture and the notes. We urge you to read the Indenture because it, and not this description, defines your rights and our obligations. You can obtain a copy of the indenture by contacting the trustee at the applicable corporate trust department.

In this section of the offering memorandum, references to the “Company,” “we,” “us” and “our” are to Empresa de Transmisión Eléctrica S.A. only and do not include our Affiliates. In addition, when we refer to the “notes” in this section, we mean the notes initially issued on the Issue Date and any additional notes which may be issued from time to time under the Indenture at a later date unless otherwise stated. References to “holders” mean those who have notes registered in their names on the books that the registrar maintains for this purpose, and not those who own beneficial interests in global notes issued in book-entry form through The Depository Trust Company. Owners of beneficial interests in the notes should refer to “Clearing and Settlement.” In addition, certain capitalized terms used in this section are defined under “—Covenants—Certain Definitions.”

General

Indenture

The notes will be issued under an indenture (the “Indenture”), to be dated as of , 2019 between us, The Bank of New York Mellon, as trustee (the “trustee,” which term includes any successor as trustee), and The Bank of New York Mellon, as paying agent, registrar and transfer agent (respectively, the “paying agent”, “registrar” and “transfer agent”).

Principal and Interest

The aggregate principal amount of the notes will initially be US\$. The notes will have a final maturity date of , unless earlier redeemed pursuant to the terms thereof and the Indenture and will require principal amortization payments in accordance with the following schedule:

<u>Scheduled Payment Date</u>	<u>Percentage of Original Principal Amount Payable</u>
,	%
,	%
,	%
,	%
,	%
,	%
,	%
,	%
,	%
,	%
,	%
,	%
,	%

Principal payments on the notes will be payable to the holders in whose names the notes are registered at the close of business on the and immediately preceding the related principal payment date.

The notes will bear interest at a rate of % per year from , 2019. Interest on the notes will be payable semi-annually in arrears on and of each year, beginning on , 2019, to the holders in whose names the notes are registered at the close of business on the and immediately preceding the related interest payment date.

We will pay interest on the notes on the interest payment dates stated above and at maturity. Each payment of interest due on an interest payment date or at maturity will include interest accrued from and including the last date to which interest has been paid or made available for payment, or from the Issue Date, if none has been paid or made available for payment, to but excluding the relevant payment date. We will compute interest on the notes on the basis of a 360-day year consisting of twelve 30-day months.

If any payment under the notes is due on a day that is not a Business Day, we will make such payment on the next Business Day. Payments postponed to the next Business Day in this situation will be treated under the Indenture as if they were made on the original due date. Postponement of this kind will not result in a default under the notes or the Indenture, and no interest will accrue on the postponed amount from the original due date to the next Business Day.

Ranking of the Notes

The notes will be senior unsecured obligations and will rank *pari passu* in right of payment with all of our unsecured and unsubordinated senior indebtedness (except those obligations preferred by operation of Panamanian law, including but not limited to, labor, social security and tax claims). The notes will not have the benefit of any credit support or other collateral securing, and will be effectively subordinated to, any of our existing or future secured Indebtedness to the extent of the value of the assets securing such indebtedness. In addition, the notes will be structurally subordinated to all existing and future unsecured and unsubordinated debt and other liabilities (including trade payables) of our subsidiaries, if any.

At December 31, 2018, after giving effect to this offering and the application of the estimated net proceeds therefrom as described under “Use of Proceeds,” our total Indebtedness would have been US\$, US\$ of which would have constituted secured Indebtedness.

Form and Denominations

The notes will be issued only in registered form without coupons and in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof (collectively, the “Minimum Denomination”). Except in limited circumstances, the notes will be issued in the form of global notes. See “Clearing and Settlement.”

Further Issues

We reserve the right, from time to time without the consent of holders to issue additional notes with terms and conditions identical to those of the notes (except that the issue date, issue price, first scheduled interest payment date, first scheduled principal payment date, CUSIP and other securities identifiers and temporary securities law transfer restrictions may be different). We will only be permitted to issue additional notes if, at the time of such issuance, the Company is in compliance with the covenants contained in the Indenture. Any additional notes will increase the aggregate principal amount of, and will be consolidated and form a single series with, the notes and will vote on all matters that require a vote, including, without limitation, waivers, amendments, redemptions and offers to purchase; *provided* that additional notes of the same series may be issued only if such issuance would be fungible with the notes for U.S. federal income tax purposes. We refer to such notes as “additional notes.”

Payment of Additional Amounts

Subject to the exceptions identified below, any and all payments by us to or for the account of each holder (including any premium paid upon redemption or tender of the notes) shall be made free and clear of, and without any deduction or withholding regarding, any present or future Taxes (as defined below), unless the withholding or deduction of such taxes is required by applicable law. If we have the option to assume the obligation to pay withholding tax, such that no withholding or deduction would be required, we may do so. If we shall be required by law of any Taxing Jurisdiction (as defined below) to deduct or withhold any Taxes from or in respect of any sum payable under the notes then, (i) after making all required deductions and withholdings for Taxes, the sum payable to the holder of the notes shall be increased as necessary by an amount (which we refer to as an “additional amount”) so that the holder of the notes receives an amount equal to the sum it would have received had no such

deductions or withholdings been made; (ii) we shall make such deductions or withholdings in accordance with applicable law; and (iii) we shall pay the full amount deducted or withheld to the applicable Taxing Jurisdiction in accordance with applicable law.

Notwithstanding the foregoing, we will not pay additional amounts or assume payment of any withholding of Taxes with respect to any holder of notes for or solely on account of any of the following:

- any Taxes imposed solely because at any time there is or was any connection between the holder or beneficial owner of a note and a Taxing Jurisdiction, other than the mere receipt of a payment or the ownership or holding of a note or enforcement of rights thereunder, including such holder or beneficial owner (i) being or having been an actual or deemed resident thereof, (ii) having a permanent establishment or branch subject to taxation therein or (iii) being or having been engaged in a trade or business therein;
- any Tax payable other than by deduction or withholding from payments on the notes;
- any estate, inheritance, gift, excise, transfer, personal property, use, sales, or similar Tax (not including any Panamanian value-added tax payable) imposed with respect to the notes;
- any Taxes imposed solely because the holder or any other person fails to comply with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with a Taxing Jurisdiction of the holder or any beneficial owner of a note if compliance is required by law or regulation of the Taxing Jurisdiction or by an applicable income tax treaty to which a Taxing Jurisdiction is a party, as a precondition to exemption from, or reduction in the rate of, the Tax, and we have given the holders of notes at least 30 days' notice prior to the first payment date with respect to which such certification, identification, information, documentation or reporting requirement is required to the effect that holders will be required to provide such certification, identification, information, documentation or reporting requirement;
- any Taxes with respect to a note presented for payment more than thirty (30) days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to holders of notes, whichever occurs later, except to the extent that the holder of such note would have been entitled to such additional amounts on presenting such note for payment on any date during such 30-day period;
- any Taxes imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") (commonly known as the Foreign Account Tax Compliance Act, or "FATCA"), any successor law or regulation implementing or complying with, or introduced in order to conform to, FATCA, any official interpretation thereof, any intergovernmental agreement entered into in connection with the implementation of FATCA or any agreement entered into pursuant to Section 1471(b)(1) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of FATCA;
- any payment on a note to a holder thereof that is a fiduciary or partnership (including an entity treated as a partnership for tax purposes) or a person other than the sole beneficial owner of any such payment, but only to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the note; and
- any combination of the Taxes referred to above.

We will provide the trustee with documentation evidencing the payment of Taxes in respect of which we have paid any additional amount or the assumption of the payment of any withholding of Taxes. We will make copies of such documentation available to the holders of the notes upon written request.

In addition, we will pay and indemnify the holders against any Panamanian value added tax that is imposed on a payment of interest on the notes.

Any reference in this offering memorandum, the Indenture, any supplemental indenture or the notes to principal, premium, interest or any other amount payable in respect of the notes by us will be deemed also to refer to any additional amount that may be payable with respect to that amount under the obligations referred to in this subsection.

In the event that additional amounts actually paid with respect to the notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of Taxes in excess of the appropriate rate applicable to the holder of such notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the Taxing Jurisdiction imposing such Tax, then such holder shall, by accepting such notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto.

“Taxes” means, with respect to payments on the notes, all taxes, withholdings, duties, levies, assessments, value-added taxes or other governmental charges imposed or levied by or on behalf of Panama or any other jurisdiction in which we (or our successor) are then organized or resident for tax purposes or any political subdivision thereof or therein or any jurisdiction by or through which payment is made at our direction (which we refer to as a “Taxing Jurisdiction”).

We will pay promptly when due any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of each note or any other document or instrument referred to in the Indenture or such note, and those resulting from, or required to be paid in connection with, the enforcement of such note or any other such document or instrument after the occurrence and during the continuance of any event of default.

The above obligation will survive the repayment of the notes, termination, defeasance or discharge of the Indenture and any transfer by a holder or beneficial owner of its notes.

Optional Redemption

We will not be permitted to redeem the notes before their stated maturity, except as set forth below and under “—Change of Control.” In addition, you will not be entitled to require us to repurchase your notes from you before the stated maturity, except as set forth under “—Change of Control.”

Make-whole Redemption

We will have the right at our option to redeem the notes in whole or in part, at any time or from time to time prior to their maturity, on at least thirty (30) but not more than sixty (60) days’ notice to the holders (with a copy to the trustee), at a redemption price equal to the greater of (i) 100% of the principal amount of such notes and (ii) the sum of the present values of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus basis points, plus in each case accrued and unpaid interest on the principal amount of the notes to, but excluding, the date of redemption (subject to the right of the holders of record on the relevant record date to receive interest and additional amounts (if any) on the relevant interest payment date); *provided, however*, that if the notes are redeemed in part only, notes in an aggregate principal amount of at least U.S.\$150 million shall remain outstanding after any such partial redemption. In connection with such optional redemption, the following defined terms apply:

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the Weighted Average Life of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of .

“Comparable Treasury Price” means, with respect to any redemption date (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (ii) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by us from time to time.

“Weighted Average Life” at any date means the number of years obtained by dividing: (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment in respect of the notes, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such installment payment; by (2) the then outstanding principal amount of the notes.

“Reference Treasury Dealer” means Merrill Lynch, Pierce, Fenner & Smith Incorporated and Scotia Capital (USA) Inc. (or their respective Affiliates that are primary United States government securities dealers (a “Primary Treasury Dealer”)) and any other Primary Treasury Dealer selected from time to time by us; *provided, however*, that if any of the foregoing shall cease to be a Primary Treasury Dealer, we will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Bank by such Reference Treasury Dealer at or about 3:30 p.m. New York time on the third Business Day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) (as computed on the third Business Day immediately preceding that redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

On and after the redemption date, interest will cease to accrue on the notes or any portion of the notes called for redemption (unless we default in the payment of the redemption price and accrued interest). No later than 11:00 a.m. New York time on the Business Day immediately preceding the redemption date, we will deposit with the trustee or paying agent money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) accrued interest to, but excluding, the redemption date on the notes to be redeemed on such date. The trustee or the paying agent will promptly return to us any money deposited that is in excess of the amounts necessary to pay the redemption price of, and accrued interest, if any, on, all notes to be redeemed.

If less than all of the notes are to be redeemed at any time, the trustee will, not less than 30 nor more than 60 days prior to the redemption from the outstanding notes not previously called for redemption, select notes for redemption as follows:

- if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or
- if the notes are not listed and not in global form on a pro rata basis, by lot or by such other method as the trustee in its sole discretion will deem to be fair and appropriate; provided, that if the notes are in global form, then the notes to be redeemed shall be selected by lot or otherwise by such other method as DTC may prescribe.

Notes and portions of notes selected will be in the Minimum Denomination.

Optional Redemption for Taxation Reasons

If, as a result of the adoption of any new laws, rules, regulations or interpretations, or any amendment to, or change in, the laws (or any rules or regulations thereunder) of any Taxing Jurisdiction affecting taxation, or any amendment to, or change in official position by a competent authority in any Taxing Jurisdiction with respect to, an official interpretation or application of such laws, rules or regulations, which adoption, change or amendment becomes effective on or after the later of (a) the date on which the notes we are offering are issued and (b) the date the relevant Taxing Jurisdiction becomes a Taxing Jurisdiction, we have become obligated or will become obligated, in each case, after taking all reasonable measures to avoid this requirement (provided that changing the jurisdiction of the paying agent is a reasonable measure), to pay additional amounts or to assume any withholding payments on or with respect to the notes or on payments of interest on or other amounts on or with respect to the notes (see “—Payment of Additional Amounts”, “Material United States Federal Income Tax Considerations” and “Certain Panamanian Tax Consequences”), then, at our option, all, but not less than all, of the notes may be redeemed at any time on giving not less than 30 nor more than 60 days’ notice to the holders (with a copy to the trustee), at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and any additional amounts due thereon up to, but excluding, the date of redemption; *provided, however*, that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which we would be obligated to pay these additional amounts if a payment on the notes were then due, and (2) at the time such notice of redemption is given such obligation to pay such additional amounts remains in effect or is to become effective.

Prior to giving any notice of redemption pursuant to this provision, we will deliver to the trustee:

- an officer’s certificate stating that we are entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred, and
- an opinion of legal counsel qualified in the relevant Taxing Jurisdiction (which may be our counsel) of recognized standing to the effect that we have or will become obligated to pay such additional amounts or to assume any withholding payment as a result of such change or amendment, as described above.

The notice of redemption pursuant to this provision, once delivered to the holders, will be irrevocable.

Notices of Redemption

Any notice of a redemption must be given to each holder of notes not less than 30 days nor more than 60 days prior to the redemption date pursuant to provisions described under “—Notices,” except that redemption notices may be given more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the Indenture in accordance with the terms thereof. Notice of any redemption of the notes as set forth under “—Make-whole Redemption” may, at our discretion, be subject to one or more conditions precedent. In addition, if such redemption is subject to satisfaction of one or more conditions precedent, such notice shall state that, in our discretion, the redemption date may be delayed until such time (including more than 60 days after the date the notice of redemption was delivered) as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed, or such notice may be rescinded at any time in our discretion if in our good faith judgment any or all of such conditions will not be satisfied. At our request, in the form of an officer’s certificate given to the trustee at least five (5) Business Days in advance, the trustee will give the notice of redemption in our name and at our expense; *provided, however*, that we have delivered to the trustee the information to be stated in such notice.

Open Market Purchases and Re-acquisitions of Notes

We and any of our Subsidiaries or Affiliates may at any time and from time to time purchase or otherwise acquire notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise, at any price, subject to compliance with any applicable regulation or law.

Merger, Consolidation, Spin-Off (*escisión*) or Sale of Assets

The Company will not consolidate with or merge into or spin-off (*escindirse*) any other Person or, directly or indirectly, transfer, convey, sell, lease or otherwise dispose of all or substantially all of its assets and properties, and will not permit any Person to consolidate with or merge into or spin-off (*escindirse*) from the Company unless all of the following conditions are met:

- if the Company is not the successor Person in the transaction, the successor is organized and validly existing under the laws of Panama or any country that belongs to the Organization for Economic Cooperation and Development, and expressly assumes by supplemental indenture the Company's obligations under the notes and the Indenture;
- immediately after the transaction, no default under the notes has occurred and is continuing. For this purpose, "default under the notes" means an event of default or an event that would be an event of default with respect to the notes if the requirements for giving the Company default notice and for the Company default having to continue for a specific period of time were disregarded. See "—Defaults, Remedies and Waiver of Defaults"; and
- the Company has delivered to the trustee an officer's certificate and opinion of counsel, each stating, among other things, that the conditions precedent under the Indenture related to the consummation of the transaction and the execution of the supplemental indenture, if any, have been met, and the opinion of counsel shall state that any such supplemental indenture constitutes the legal, valid and binding obligation of such successor Person.

If the conditions described above are satisfied, the Company will not have to obtain the approval of the holders of the notes in order to merge or consolidate or to sell or to spin-off (*escindirse*) or otherwise dispose of all or substantially all its properties and assets. In addition, these conditions will apply only if the Company wishes to merge into, consolidate with another Person, or sell or otherwise dispose of all or substantially all of its assets and properties. The Company will not need to satisfy these conditions if it enters into other types of transactions, including any transaction in which the Company acquires the stock or assets of another Person, any transaction that involves a Change of Control, but in which the Company does not merge or consolidate or spin-off (*escindirse*) (although the Company in such case will need to comply with the provisions set forth under "—Change of Control") and any transaction in which the Company sells or otherwise disposes less than substantially all the assets and properties of the Company and its Subsidiaries taken as a whole.

Change of Control

By no later than 30 days after the date on which a Change of Control occurs, the Company will give or cause to be given to each holder a notice (a “Change of Control Notice”) offering to purchase the notes (and/or any and all beneficial interests therein) on a selected date that is no earlier than 30 days and no later than 60 days (or such additional time as may be required by applicable law) after the date of such Change of Control Notice, which selected date must be a Business Day. The Change of Control Notice must advise each holder in sufficient detail as to how to tender its notes (or beneficial interests therein) should it elect to accept such offer. In connection with any such purchase offer, the Company will comply with Rule 14e-1 under the Exchange Act and, to the extent applicable, any other applicable laws. To the extent that the provisions of any applicable law or Rule 14e-1 conflict with the provisions of this covenant, the Company will comply with such applicable law or Rule 14e-1, as applicable, and will not be deemed to have breached its obligations under this covenant by virtue of such conflict or its compliance with such applicable law or Rule 14e-1, as applicable.

Each holder will have the right to tender in the offer all or any portion of such holder’s notes (or beneficial interests therein) in accordance with the Change of Control Notice; *provided* that, unless such holder tenders all of its notes (or beneficial interests therein), a holder may not so tender its notes (or beneficial interests therein) if such would leave it holding notes (or beneficial interests therein) with an original face value of less than the Minimum Denomination. On the Business Day immediately preceding the selected purchase date, the Company will deposit with the paying agent funds in an amount equal to 101% of the portion of the outstanding principal balance of the notes represented thereby plus all accrued and unpaid interest (if any) thereon to, but excluding, the purchase date plus any applicable additional amounts for each tendered note (and/or beneficial interest therein).

On the selected purchase date, the Company will: (a) subject to the next paragraph, accept (except to the extent such acceptance would violate applicable law) for purchase all of the notes (and/or beneficial interests therein) that have been tendered in (and not withdrawn from) such offer, and (b) deliver or cause to be delivered to the trustee the notes so accepted together with an officer's certificate stating the aggregate principal amount of notes (and/or beneficial interests therein) so being purchased by the Company. Any such notes (and/or beneficial interests therein) so purchased by the Company will be promptly cancelled by the trustee.

We cannot assure you that the Company would be able to make payments for all notes (or beneficial interests therein) tendered and accepted in such an offer, whether due to the lack of sufficient funds or otherwise. While the Company may seek to obtain financing in order to make such payments, it may not be able to do so and its failure to make such payments when due would constitute an event of default.

One of the events that may result in a Change of Control is the disposition of “all or substantially all” of the Company’s property under certain circumstances. The meaning of this term is subjective, based upon the facts and circumstances of the subject transaction and although there is a body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable New York State law (which will be the governing law of the Indenture). As a consequence, in certain circumstances there may be uncertainty in ascertaining whether a particular transaction involves a disposition of “all or substantially all” of the property of the Company. In the event that holders believe that such a Change of Control has occurred and the Company contests such election, we cannot assure you as to how a court interpreting New York State law would interpret the phrase.

Covenants

The following covenants will apply to the Company and its Subsidiaries for so long as any note remains outstanding. These covenants restrict the ability of the Company and its Subsidiaries to enter into certain transactions.

Limitation on Liens

The Company may not, and will not allow any of its Subsidiaries, to, permit to exist any Indebtedness if such Indebtedness is secured by a Lien upon any of its or its Subsidiaries’ property, assets, income or profits, unless, concurrently with the issuance or assumption of such Indebtedness or the creation of such Lien, the notes (together

with, at the Company's option, any other Indebtedness of the Company or its Subsidiaries then existing or thereafter created which is not subordinated to the notes) shall be secured equally and ratably with (or at the Company's option prior to) such Indebtedness for so long as such Indebtedness is so secured; *provided, however*, that the foregoing restriction shall not apply to:

(i) any Lien on (a) any property or assets acquired, constructed, developed, extended or improved by the Company or any of its Subsidiaries (singly or together with other Persons) after the date of the Indenture or any property reasonably incidental to the use or operation of such property or assets (including any real property on which such property or asset is located), or (b) any shares or other ownership interest in, or any Indebtedness of, any Person which holds, owns or is entitled to such property, products, revenue or profits, in each of clauses (a) and (b) above to the extent such Lien is created, incurred or assumed (x) during the period such property or asset was being constructed, developed, extended or improved, or (y) contemporaneously with, or within 360 days after, such acquisition or the completion of such construction, development, extension or improvement in order to secure or provide for the payment of all or any part of the purchase price or other consideration of such property or asset or the other costs of such acquisition, construction, development, extension or improvement (including costs such as escalation, interest during construction and financing and refinancing costs) ;

(ii) any Lien on any property or asset existing at the time of acquisition thereof and which (a) is not created as a result of or in connection with or in anticipation of such acquisition and (b) does not attach to any other property or asset other than the property or asset so acquired;

(iii) any Lien on any property or asset acquired from a Person which is merged with or into the Company or any of its Subsidiaries or any Lien existing on any property or asset of any Person at the time such Person becomes a Subsidiary of the Company, in either such case which (a) is not created as a result of or in connection with or in anticipation of any such transaction and (b) does not attach to any other property or asset other than the property or asset so acquired;

(iv) any Lien which secures Indebtedness or a guarantee owing by any of the Company's Subsidiaries to the Company or to any other of the Company's Subsidiaries;

(v) any Lien existing on the date of the Indenture;

(vi) any Lien which secures any Indebtedness incurred to finance all or part of the construction or acquisition of the Fourth Transmission Line; *provided* that (i) a Rating Reaffirmation is obtained prior to the incurrence of any such Indebtedness, (ii) the Lien in respect of such Indebtedness does not attach to any property or asset other than the Fourth Transmission Line, and (iii) the aggregate principal amount of Indebtedness secured by such Liens will not exceed (but may be less than) the cost of construction or acquisition of the Fourth Transmission Line; or

(vii) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (i) through (vi) inclusive (excluding Liens securing indebtedness of the Company to be prepaid with the proceeds from the sale of the notes as described under the caption "Use of Proceeds"); *provided, however*, that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement plus an amount necessary to pay any fees and expenses, including premiums and defeasance costs related to such transaction, and that such extension, renewal or replacement shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property).

Notwithstanding the foregoing, the Company and any of its Subsidiaries may issue or assume Indebtedness secured by a Lien that would otherwise be prohibited under the provisions of the Indenture described in this section or enter into a Sale and Leaseback Transaction that would otherwise be prohibited by the provision of the Indenture described below under "— Limitations on Sale and Leasebacks;" *provided, however*, that (A) the aggregate amount of such Indebtedness, guarantee or Attributable Indebtedness of such Sale and Leaseback Transaction together with the aggregate amount (without duplication) of (i) Indebtedness outstanding at such time of the Company or the Company's Subsidiaries previously incurred pursuant to this paragraph, plus (ii) the Attributable Indebtedness of all of the Company's and the Company's Subsidiaries' Sale and Leaseback Transactions outstanding at such time that were previously incurred pursuant to the provisions of the Indenture described below under the first bullet point of

“—Limitation on Sales and Leasebacks,” shall not exceed 15% of Consolidated Net Tangible Assets at the time any such Indebtedness is issued or assumed by the Company or any of the Company’s Subsidiaries or at the time any such Sale and Leaseback Transaction is entered into; and (B) all Liens securing existing Indebtedness to be prepaid with the proceeds from the sale of the notes as described under the caption “Use of Proceeds” of the offering memorandum relating to the notes shall have been terminated and released in full.

Limitation on Sales and Leasebacks

The Company may not, and will not allow any of its Subsidiaries to, enter into any Sale and Leaseback Transaction, unless:

- The Company or any of its subsidiaries would be entitled pursuant to the provisions of the Indenture described above under “—Limitation on Liens” to issue or assume Indebtedness or a guarantee (in an amount equal to the Attributable Indebtedness with respect to such Sale and Leaseback Transactions) secured by a Lien on such property without equally and ratably securing the notes; or
- the Company or one of its Subsidiaries, within twelve (12) months of the Sale and Leaseback Transaction, (i) retires an amount of Indebtedness ranking at least *pari passu* in right of payment with the notes or Indebtedness of any of its Subsidiaries, in each case owing to a Person other than the Company or any of the Company’s affiliates, in an amount equal to the Attributable Indebtedness of such Sale and Leaseback Transaction, or (ii) applies such amount to the acquisition, purchase, construction, development, extension or improvement of any of the Company’s real property, power transmission lines, facilities or equipment.

Reporting

For so long as the notes remain outstanding, we will provide to the holders of the notes and to the trustee, a URL address providing access to the following items in English:

- (i) (A) our annual consolidated financial statements audited by KPMG or any other internationally recognized firm of independent public accountants, within one hundred twenty (120) days after the end of our fiscal year, and; (B) quarterly consolidated financial statements (including a statement of financial position, statement of profit or loss and cash flow statement for the fiscal quarter then ended and the corresponding fiscal quarter from the prior year), within ninety (90) days of the end of each of the first three fiscal quarters in each fiscal year; *provided that*, references to consolidated financial statements in this paragraph refer only to the Company and its consolidated Subsidiaries, if any. These annual and quarterly consolidated financial statements will be prepared in accordance with IFRS and will be accompanied by a management’s discussion and analysis of the results of our operations and liquidity and capital resources for the periods presented. Any and all defaults or events of default arising from a failure to comply with this covenant shall be deemed cured (and the Company shall be deemed to be in compliance with this covenant) upon furnishing or filing such statements or information as contemplated by this covenant; and
- (ii) any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the notes are not freely transferable under the Securities Act.

The trustee shall not be obligated to monitor or confirm, on a continuing basis or otherwise, our or any other Person’s compliance with the covenants described herein or to verify that such reports are being provided on the aforementioned website.

Delivery of reports, information and documents to the trustee is for informational purposes only and the trustee’s receipt of such reports shall not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including our or any other Person’s compliance with any of its covenants under the Indenture or the notes (as to which the trustee is entitled to rely exclusively on officer’s certificates).

Use of Proceeds and Release of Liens

We will use the net proceeds from the sale of the notes to repay, prepay, repurchase and/or redeem certain of our existing Indebtedness as described under the caption “Use of Proceeds” of the offering memorandum relating to the notes. We will take all commercially reasonable actions (including, but not limited to, sending the required notices and other relevant documentation to our lenders, creditors, agents and bondholders, submitting all relevant documentation to and making any required filings with governmental agencies, registries or authorities under applicable law) to cause the termination and release in full of all Liens over our assets or property relating to such existing Indebtedness being repaid, prepaid, repurchased and/or redeemed with the proceeds from the sale of the notes, as soon as practicable after the Issue Date.

Certain Definitions

The following sets forth certain of the defined terms used in the covenants or elsewhere in the Indenture. Reference is made to the Indenture for the full definitions of all such terms, as well as any other terms used herein for which no definition is provided.

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control,” as used with respect to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person whether through the ownership of voting securities, by agreement or otherwise. For the purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“Attributable Indebtedness” means, with respect to any Sale and Leaseback Transaction, the lesser of (i) the fair market value of the asset subject to such transaction and (ii) the present value, discounted at a rate per annum equal to the discount rate inherent in the applicable lease, of the obligations of the lessee for net rental payments (excluding, however, any amounts required to be paid by such lessee, whether or not designated as rent or additional rent, on account of maintenance and repairs, services, insurance, taxes, assessments, water rates or similar charges and any amounts required to be paid by such lessee thereunder contingent upon monetary inflation or the amount of sales, maintenance and repairs, insurance, taxes, assessments water rates or similar charges) during the remaining term of the lease (as determined in good faith by the Company in accordance with IFRS).

“Board of Directors” means (1) with respect to the Company, the board of voting directors governing the Company or any duly authorized committee thereof, (2) with respect to any partnership, the board of directors or other governing body of the general partner of the partnership or any duly authorized committee thereof, and (3) with respect to any other Person, the board or any duly authorized committee of such Person serving a similar function. Whenever any provision requires any action or determination to be made by, or any approval of, a Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors of any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval).

“Business Day” means each Monday, Tuesday, Wednesday, Thursday and Friday that is not (i) a day on which banking institutions in New York, New York or Panama City, Panama generally are authorized or obligated by law, regulation or executive order to close, or (ii) a day on which banking and financial institutions in New York, New York or Panama City, Panama are closed for business with the general public.

“BVP” means the *Bolsa de Valores de Panama, S.A.* (Panama Stock Exchange).

“Capital Stock” means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated and whether or not voting) of equity of such Person, including each class of common stock, preferred stock, limited liability interests or partnership interests, but excluding any debt securities convertible into such equity.

“Change of Control” means: (a) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions, of all or substantially all of the

properties or assets of the Company and its Subsidiaries, taken as whole, to any “person” (as that term is used in Section 13(d)(3) of the Exchange Act) other than a Permitted Shareholder, (b) that other than the Permitted Shareholders, any person or group (each as used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Capital Stock of the Company, (c) that Permitted Shareholders do not have the right to appoint at least a majority of the Board of Directors of the Company, (d) that Permitted Shareholders cease to have the power to direct the management and policies of the Company or (e) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Condemnation Event” means any action or series of actions taken, authorized, ratified or acquiesced in by any governmental authority in Panama or any Person purporting to act as a governmental authority in Panama or a governing authority which is in de facto control of part of Panama or arising under any applicable law for any appropriation, confiscation, expropriation or nationalization, compulsory transfer or taking or transfer under threat of compulsory transfer or taking (by intervention, condemnation or other form of taking), whether with or without compensation and whether under color of law or otherwise (including through confiscatory taxation or imposition of confiscatory charges) of all or a material part of our assets or any material portion of our economic benefits therefrom; *provided* that the government of the Republic of Panama’s ownership of the our capital stock alone shall not be considered a Condemnation Event.

“Consolidated Net Tangible Assets” means, at any date of determination, the total of all assets appearing on our consolidated statement of financial position included in our most recent quarterly or annual consolidated balance sheet less (i) all current liabilities (other than current maturities of long-term debt) and (ii) all goodwill, trademarks, patents, unamortized debt discounts and expenses and other like intangibles, in each case, reflected in such balance sheet.

“DTC” means The Depository Trust Company.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Fitch” means Fitch Ratings Ltd. and its successors.

“Fourth Transmission Line” means the Fourth Electricity Line Chiriquí Grande-Panamá III 500KV.

“IFRS” means the International Financial Reporting Standards as adopted by the International Accounting Standards Board, as in effect from time to time.

“Indebtedness” means, with respect to any Person (without duplication) (i) any obligation of such Person (a) for borrowed money, under any reimbursement obligation relating to a letter of credit (other than letters of credit payable to suppliers in the ordinary course of business), under any reimbursement obligation relating to a financial bond or under any reimbursement obligation relating to a similar instrument or agreement, (b) for the payment of money relating to any obligations under any capital lease of real or personal property, (c) under any agreement or instrument in respect of an interest rate or currency swap, exchange or hedging transaction or other financial derivatives transaction (other than any such agreements as are entered into in the ordinary course of business and are not for speculative purposes or the obtaining of credit) or (d) consisting of guarantees of obligations of the type described in the immediately preceding clauses (a) through (c) of other Persons; and (ii) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clause (i) above. For the purpose of determining any particular amount of Indebtedness under this definition, guarantees of (or obligations with respect to letters of credit) Indebtedness otherwise included in the determination of such amount shall not be included.

“Issue Date” means the date on which the notes initially issued under the Indenture are issued.

“Lien” means any mortgage, pledge, lien, security interest, charge or similar encumbrance (including any conditional sale or other title retention agreement not in connection with the purchase of goods in the ordinary course of business which is outstanding for more than 360 days).

“Majority Holders” means, as of any date of determination the holders that, in the aggregate, hold more than 50% of the outstanding principal balance of the notes on such date.

“Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

“Permitted Shareholder” means the government of the Republic of Panama and any person controlled thereby.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company or government or other entity.

“Rating Agencies” shall mean each of Fitch, Moody’s and S&P or, if any of Fitch, Moody’s or S&P shall not make a rating on the notes publicly available, such other “nationally recognized statistical rating organization” (within the meaning of Rule 15c3 1(c)(2)(vi)(F) under the Exchange Act) as the Company may select (as certified by a resolution of the Board of Directors of the Company) as a replacement agency for Fitch, Moody’s or S&P or each of them, as the case may be.

“Rating Reaffirmation” means, a written reaffirmation from each Rating Agency then rating in respect of the notes stating that the credit rating on the notes, which was in effect immediately prior to any public notice of the intention to incur any Indebtedness to finance the construction or acquisition of the Fourth Transmission Line, will not be decreased as a result of any such incurrence; *provided* that a decrease due to a concurrent downgrading of the credit rating of the Republic of Panama or its debt securities would not constitute a decrease for purposes of a Rating Reaffirmation.

“Sale and Leaseback Transaction” means an arrangement between the Company or any of its Subsidiaries and another Person where the Company or its Subsidiary leases real or personal property for an initial term of three years or more that was or will be sold by the Company or its Subsidiary to that Person for a sale price equal to or greater than U.S.\$5 million.

“S&P” means Standard & Poor’s Rating Service or any successor thereto.

“Significant Subsidiary” means each subsidiary of a Person which would be a “significant subsidiary” within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC in effect on the date of the Indenture, assuming the Person is the registrant referred to in such definition.

“SMV” means the *Superintendencia del Mercado de Valores of Panama*.

“Subsidiary” means any corporation or other business entity of which the Company owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interests, in each case having ordinary voting power to elect or appoint directors, managers or trustees of such corporation or other business entity (whether or not capital stock or other ownership interests or any other class or classes have or might have voting power upon the occurrence of any contingency).

Listing

The Company will register the notes with the SMV and will maintain such registration, and will use commercially reasonable efforts to list the notes on the BVP, and if the notes are so listed then the Company will use commercially reasonable efforts to maintain such listing. If the Company is unable to maintain its listing having used all commercially reasonable efforts or if the maintenance of such listing is determined by the Company to be unduly burdensome or impractical, it will use commercially reasonable efforts to obtain and maintain a quotation or listing of the notes on such other stock exchange or exchanges or securities market or markets as the Company decides and will give notice of the identity of such other stock exchange or exchanges or securities market or markets to the trustee, which will provide notice thereof to each of the holders.

Defaults, Remedies and Waiver of Defaults

You will have special rights if an event of default with respect to the notes that you hold occurs and is not cured, as described below.

Events of Default

Each of the following will be an “event of default”:

- we fail to pay the principal of (or premium, if any, on) the notes on its due date (whether upon acceleration, redemption or otherwise), including the failure to purchase notes pursuant to an offer to purchase upon a Change of Control as required by the provisions described under the caption “—Change of Control”;
- we fail to pay interest (or additional amounts, if any) on the notes within thirty (30) days after the relevant due date;
- we remain in breach of any covenant in the Indenture (other than a payment default referred to in the two immediately preceding bullet points), for sixty (60) days after we receive a notice of default (sent by the trustee or the holders of not less than 25% in principal amount of the outstanding notes (with a copy to the trustee if given by the holders)) stating that we are in breach and requiring such breach to be remedied and stating that such notice constitutes a notice of default under the Indenture;
- we or any of our Significant Subsidiaries institutes any proceeding to be adjudicated as voluntary bankrupt, or consents to the filing of a bankruptcy proceeding against it, or files a petition or answer or consent seeking reorganization, or consents to the filing of any such petition, or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy, reorganization, or insolvency of it or its property, or, subject to certain grace periods in the case of involuntary proceedings, other events of bankruptcy, insolvency, dissolution, liquidation or similar proceedings relating to us or any of our property occur;
- we, or any of our Significant Subsidiaries, are in a default under any instrument relating to Indebtedness for money borrowed, or under any mortgage, indenture or instrument under which there is issued or by which there is secured or evidenced any Indebtedness for money borrowed, having an aggregate principal amount exceeding US\$50 million (or its equivalent in other currencies) due to a failure to pay principal or interest when due or that results in the acceleration of such Indebtedness prior to its maturity and such default continues for more than the relevant period of grace, if any, applicable thereto and the period for payment has not been expressly extended; or
- a non-appealable final judgment is rendered against us or any of our Significant Subsidiaries in an aggregate principal amount exceeding US\$50 million (or its equivalent in other currencies) and either (A) such final judgment is not stayed, bonded in full, fully escrowed for or discharged or covered by insurance and unconditionally assumed by the relevant insurer in writing within sixty (60) days after entry thereof or (B) there shall be any period of at least 60 consecutive days during which a stay of enforcement of such judgment or order shall not be in effect; or
- a Condemnation Event shall have occurred and be continuing; *provided* that if the governmental instrumentality causing such Condemnation Event is an entity other than the Government of the Republic of Panama, such Condemnation Event will have continued for a period of ninety days so long as, at all times during this period, we have been diligently pursuing an end to such Condemnation Event and the Government of the Republic of Panama has not acknowledged its legitimacy.

Remedies Upon Event of Default

If an event of default with respect to the notes occurs and is not cured or waived, the trustee, at the written request of holders of not less than 25% in principal amount of the outstanding notes, shall declare the entire principal amount of all the notes to be due and payable immediately, and upon any such declaration the principal, any accrued interest and any additional amounts shall become due and payable. If, however, an event of default occurs because of bankruptcy, reorganization, insolvency, dissolution or liquidation relating to us, the entire principal amount of the notes and any accrued interest and any additional amounts will be automatically accelerated, without any action by the trustee or any holder and any principal, interest or additional amounts will become immediately due and payable.

Each of the situations described in the preceding paragraph is called an acceleration of the maturity of the notes. The right of the holders to give a declaration of acceleration shall terminate if the event giving rise to such right shall have been cured before such right is exercised. If the maturity of the notes is accelerated and a judgment for payment has not yet been obtained, Majority Holders may cancel the acceleration for all the notes, *provided* that all amounts then due (other than amounts due solely because of such acceleration) have been paid, all other events of default have been cured or waived and the trustee has been reimbursed for its reasonable fees and expenses (including fees and expenses of counsel).

If any event of default occurs, the trustee will be obligated to use those of its rights and powers under the Indenture, and to use the same degree of care and skill in doing so, that a prudent person would use under the circumstances in conducting his or her own affairs.

The trustee is not required to take any action under the Indenture at the request of any holders unless the holders offer the trustee indemnity and/or security satisfactory to it, from expenses and liability. Subject to the terms of the Indenture, if the trustee receives an indemnity that is satisfactory to it, Majority Holders may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee or direct the trustee in exercising any trust or power conferred on the trustee.

No holder of notes will have any right to institute any proceeding or action, judicial or otherwise, or take other steps to enforce its rights or protect its interests relating to the notes, unless:

- the trustee shall have previously received written notice that an event of default has occurred and the event of default has not been cured or waived;
- the holders of not less than 25% in principal amount of the outstanding notes shall have requested in writing that the trustee take action with respect to the notes because of the default and they or other holders must offer to the trustee indemnity and/or security satisfactory to the trustee against the cost and other liabilities of taking that action;
- the trustee shall have failed to act for sixty (60) days after the above steps have been taken; and
- during those sixty (60) days, Majority Holders must not have given the trustee written directions that are inconsistent with the written request of the holders of not less than 25% in principal amount of the outstanding notes.

You will be entitled, however, at any time to bring a lawsuit for the payment of money due on your note on or after its due date.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of the maturity.

Waiver of Default

Majority Holders may waive a past default for all the notes. If this happens, the default will be treated as if it had been cured. No one can waive a payment default on any note, however, without the approval of the particular holder of that note.

Meetings, Amendments and Waivers

We may call a meeting of holders of outstanding notes at any time regarding the Indenture or the notes. We will determine the time and place of the meeting and will notify the holders of outstanding notes of the time, place and purpose of the meeting not less than 30 nor more than 60 days before the meeting.

In addition, we or the trustee will call a meeting of holders of the notes if the holders of at least 10% in principal amount of all the notes then outstanding have delivered a written request to us or the trustee (with a copy to us) setting out the purpose of the meeting. The trustee will agree the time and place of the meeting with the Company promptly. We or the trustee, as the case may be, will notify the holders of outstanding notes within 10 days of receipt of such written request of the time and place of the meeting, to take place not less than 30 and not more than 60 days after the date on which such notification is given.

Only holders of outstanding notes and their proxies are entitled to vote at a meeting of holders of the notes. We will set the procedures governing the conduct of the meeting and if additional procedures are required, we will consult with the trustee to establish such procedures as are customary in the market.

Modifications may also be approved by holders of outstanding notes pursuant to the written consent of the requisite percentage of the notes. We will solicit the consent of the relevant holders of outstanding notes to the modification not less than 10 nor more than 30 days before the expiration date for the receipt of such consents as specified by us.

The holders of outstanding notes may generally approve any proposal by the Company, other than a Reserved Matter modification, to modify the Indenture or the terms of the notes with the affirmative vote (if approved at a meeting of the holders of outstanding notes) or consent (if approved by written action) of Majority Holders.

However, holders of outstanding notes may approve, by vote or consent through one of three modification methods below, any proposed modification by the Company that would do any of the following (each such matter set forth below, a “Reserved Matter”):

- change the date on which any amount of principal, premium or interest is due on the notes;
- reduce the principal amount of the notes, the portion of such principal amount that is payable upon the acceleration of the maturity of the notes, the interest rate on the notes or the premium payable upon redemption of the notes;
- change the currency or place of payment of any amount of principal, premium or interest payable on the notes;
- shorten the period in which the Company is not permitted to redeem the notes or permit the Company to redeem the notes if, prior to such modification, the Company is not permitted to do so;
- change the obligation and price for repurchase following the occurrence of a Change of Control;
- reduce the percentage of affirmative votes or written consents, as the case may be, required to modify, amend or supplement the Indenture or the terms and conditions of the notes or to take any action provided by the notes or Indenture;
- change the obligation of the Company to pay additional amounts, if any, pursuant to the notes;
- change the definition of “Uniformly Applicable,” “Reserved Matter,” or “outstanding”;
- change the method used to calculate any amount payable on the notes;

- change the ranking of the notes (unless, as a technical modification, the ranking is changed for the purpose of securing the notes);
- change the identity of the obligor under the notes other than as described under “—*Merger, Consolidation, Spin-Off (escisión) or Sale of Assets*”;
- authorize the trustee, on behalf of all holders of outstanding notes, to exchange or substitute all the notes for, or convert all the notes into, other obligations or securities of the Company or any other person; or
- change the governing law, the obligation of the Company to appoint an agent for the service of process, submission to jurisdiction or agreement not to raise certain immunity defenses, as provided in the terms of the notes.

A change to a Reserved Matter, including the payment terms of the notes, can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- the holders of more than 75% of the aggregate principal amount of the outstanding notes;
- where such proposed modification would affect the outstanding debt securities of two or more series of debt securities issued under the Indenture, the holders of more than 75% of the aggregate principal amount of the outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, if certain "Uniformly Applicable" requirements are met; or
- where such proposed modification would affect the outstanding debt securities of two or more series of debt securities issued under the Indenture, the holders of more than 66 2/3% of the aggregate principal amount of the outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, and the holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually.

With respect to any such proposed modification that would affect the outstanding debt securities of two or more series issued under the Indenture, it is understood that any such modification that does not meet the “Uniformly Applicable” requirements must be effected pursuant to the third bullet above and such modification that is “Uniformly Applicable” may be effected pursuant to either the second or third bullet, at the Company’s option.

“Uniformly Applicable,” as referred to above, means a modification by which holders of debt securities of any series issued under the Indenture affected by that modification are invited to exchange, convert or substitute their debt securities, on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be Uniformly Applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holders of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

The Company may select, in its good faith and reasonable discretion, any of the modification methods for a Reserved Matter modification as set forth above and in accordance with the Indenture and to designate which

series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

Before soliciting the written consent or the vote of holders of the notes for any change to a Reserved Matter, we will provide the following information to the trustee for distribution to the holders of the notes that would be affected by the proposed modification:

- a description of the Company's financial circumstances that are in the Company's opinion, relevant to the request for the proposed modification and a description of the Company's existing debts;
- if the Company shall at the time have entered into an arrangement for financial assistance with any major creditor or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of any creditors, as applicable, a copy of the arrangement or agreement;
- a description of the Company's proposed treatment of external debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and
- if the Company is then seeking any Reserved Matter modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the holders of the requisite principal amount of the debt securities of a series have approved any request, demand, authorization, direction, notice, consent, amendment, modification or supplement to, or waiver of, the debt securities or the Indenture, or whether the holders of the requisite principal amount of debt securities of a series have delivered a notice of acceleration of the debt securities, debt securities owned, directly or indirectly, by Panama or any public sector instrumentality of Panama will be disregarded and deemed not to be "outstanding," except that in determining whether the trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, amendment, modification, supplement, waiver, or any notice from holders, only debt securities that a responsible officer of the trustee knows to be so owned shall be so disregarded.

As used in the preceding paragraph, "public sector instrumentality" means any department, ministry or agency of the national government of Panama, including the Company, any political subdivision of Panama, or any corporation, trust, financial institution or other entity owned or controlled by the national government of Panama or any of the foregoing, and "control" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

Prior to the execution of any such modification, the trustee will be entitled to receive and rely upon an opinion of counsel and an officer's certificate stating that the execution of such amendment is authorized and permitted by the Indenture. A copy of any such executed modification will be delivered by the trustee to each Rating Agency then rating the notes and each holder after receipt of a fully executed copy thereof.

The consent of the holders is not necessary to approve the particular form of any proposed modification, amendment, supplement or waiver. It is sufficient if such consent approves the substance of the proposed modification, amendment, supplement or waiver.

Any amendment to the terms of the notes and the Indenture shall comply with the above listed requirements, as well as, the *Acuerdo* 4-2003 of April 11, 2003 of the SMV, as amended from time to time.

Certain Amendments Not Requiring Holder Consent

We or the trustee may, without the vote or consent of any holders of outstanding notes, amend the

Indenture or the notes for the purpose of:

- curing any ambiguity, defect or inconsistency;
- providing for uncertificated notes in addition to or in place of certificated notes;
- providing for the assumption of the Company's obligations to holders of outstanding notes in the case of a merger or consolidation or sale of all or substantially all of properties and assets of the Company and its Subsidiaries taken as a whole, as applicable;
- making any change that would provide any additional rights or benefits to the holders of outstanding notes or surrender any right or power conferred upon the Company;
- making any change that would not adversely affect the holders of outstanding notes under the Indenture in any material respect;
- securing the notes pursuant to the requirements of the covenant described above under the subheading "—Covenants—Limitation on Liens";
- providing for the issuance of additional notes in accordance with the Indenture;
- adding a guarantor of the notes under the Indenture;
- adding to the obligations, covenants and/or representations and warranties of the Company or to surrender any right or power conferred in the Indenture upon the Company;
- effecting the listing of the notes in the manner described in "—Listing" above or any other exchange on which the notes are listed;
- conforming the text of the Indenture to the provisions of this "—Description of the Notes" to the extent necessary to accurately reflect such provisions; or
- evidencing or providing for the acceptance of appointment under the Indenture of a successor trustee or agent.

Determining Record Dates for Action by Holders

We will generally be entitled to set any day as a record date for the purpose of determining the holders that are entitled to take action under the Indenture. In some limited circumstances, only the trustee will be entitled to set a record date for action by holders. If we or the trustee set a record date for an approval or other action to be taken by holders, that vote or action may be taken only by persons or entities who are holders on the record date and must be taken during the period that we specify for this purpose, or that the trustee specifies if it sets the record date. We or the trustee, as applicable, may shorten or lengthen this period from time to time. This period, however, may not extend beyond the 180th day after the record date for the action. In addition, record dates for any global notes may be set in accordance with procedures established by the depositary from time to time.

Legal Defeasance and Covenant Defeasance

We may, at our option and at any time, elect to have our obligations discharged with respect to the outstanding notes ("legal defeasance"). Such legal defeasance means that we will be deemed to have paid and discharged the entire Indebtedness represented by the outstanding notes on the 121st day after the deposit specified in clause (1) of the second following paragraph, except for:

- (1) the rights of holders to receive payments in respect of the principal of, premium, if any, and interest (including additional amounts) on the notes when such payments are due;

- (2) our obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties, indemnities and immunities of the trustee, the paying agent, the registrar, and the transfer agent and our obligations in connection therewith; and
- (4) the legal defeasance provisions of the Indenture.

In addition, we may, at our option and at any time, elect to have our obligations released with respect to certain covenants that are described in the Indenture (“covenant defeasance”) and thereafter any omission to comply with such obligations will not constitute a default or event of default with respect to the notes. In the event covenant defeasance occurs, certain events (not including nonpayment, bankruptcy, receivership, reorganization and insolvency events) described under “Events of Default” will no longer constitute an event of default with respect to the notes.

In order to exercise either legal defeasance or covenant defeasance:

- (1) we must irrevocably deposit with the trustee, in trust, for the benefit of the holders cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the written opinion of a nationally recognized firm of independent public accountants or investment bank delivered to the trustee, to pay the principal of, premium, if any, and interest (including additional amounts) on the notes to the date of stated maturity or redemption date, as the case may be;
- (2) in the case of legal defeasance, we must deliver to the trustee an opinion of counsel from counsel in the United States reasonably acceptable to the trustee and independent of us confirming that:
 - (a) we have received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or
 - (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall state that, the holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such legal defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred;
- (3) in the case of covenant defeasance, we must deliver to the trustee an opinion of counsel in the United States reasonably acceptable to the trustee to the effect that the holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;
- (4) in the case of legal defeasance or covenant defeasance, the Company shall have delivered to the trustee an opinion of legal counsel in Panama to the effect that, based upon Panamanian law then in effect, the holders will not recognize income, gain or loss for Panamanian national, provincial or territorial or other tax purposes, and the amounts to be payable shall not be subject to any deposit or temporary freezing of funds, as a result of legal defeasance or covenant defeasance, as the case may be, and will be subject to Panamanian taxes on the same amounts and in the same manner and at the same time as would have been the case if such legal defeasance or covenant defeasance, as the case may be, had not occurred;
- (5) no default, or event which with notice or lapse of time or both would become an event of default, shall have occurred and be continuing with respect to the notes on the date of deposit or, with respect to certain events of bankruptcy or insolvency, at any time during the period ending on the

121st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period);

- (6) such legal defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under the Indenture or any other material agreement or instrument to which we or any of our subsidiaries is a party or by which we or any of our Subsidiaries is bound;
- (7) we shall not have made the deposit with the intent of preferring the holders over any other creditors or with the intent of defeating, hindering, delaying or defrauding any other creditors; and
- (8) we have delivered to the trustee an officer's certificate and an opinion of counsel from counsel in the United States, each stating that all conditions precedent provided for or relating to the legal defeasance or the covenant defeasance have been complied with.

If we elect either legal defeasance or covenant defeasance with respect to the notes, we must so elect it with respect to all of the outstanding notes.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the notes, as expressly provided for in the Indenture) as to all outstanding notes when:

(1) either:

(a) all the notes theretofore authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the trustee for cancellation; or

(b) all notes that have not been delivered to the trustee for cancellation have become due and payable or will become due and payable within one year by reason of the giving of a notice of redemption or otherwise and the Company has irrevocably deposited or caused to be deposited with the trustee, in trust, for the benefit of the holders cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the written opinion of a nationally recognized firm of independent public accountants or investment bank delivered to the trustee, to pay and discharge the entire Indebtedness on the notes not theretofore delivered to the trustee for cancellation, for principal, premium, if any, and interest in respect of the notes to the date of stated maturity or redemption date, as applicable;

(2) the Company has paid all other sums payable under the Indenture and the notes by it; and

(3) the Company has delivered to the trustee an officer's certificate and an opinion of counsel from counsel in the United States, each stating that all conditions precedent provided for or relating to the satisfaction and discharge of the Indenture have been complied with.

Payment Provisions

Payments on the Notes

Principal payments on the notes will be payable to the holders in whose names the notes are registered at the close of business on the _____ and _____ immediately preceding the related principal payment date. We will pay the amount of principal due at stated maturity to the holders of the notes against surrender of such notes at the proper place of payment.

Interest on the notes will be payable semi-annually in arrears on and of each year, beginning on , 2019, to the holders in whose names the notes are registered at the close of business on the and immediately preceding the related interest payment date. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 p.m., New York City time, on that day.

Payments on Global Notes

For notes issued in global form, we will make payments on the notes in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly or through the trustee or a paying agent to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the notes. An indirect holder's right to receive such payments will be governed by the rules and practices of the depositary and its participants.

Payments on Certificated Notes

For notes issued in certificated form, if any, we will pay any amount that becomes due on such notes by delivery of a check drawn on a bank in the city of New York to the holders at the addresses appearing in the register of the notes on the record date, *provided, however*, that payments on the notes may also be made, in case of a holder of at least US\$10.0 million aggregate principal amount of notes, by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such holder elects payment by wire transfer by giving written notice to the trustee or the paying agent to such effect designating such account no later than 10 Business Days immediately preceding the relevant payment date (or such other date as the trustee may accept in its discretion). In the case of any payments due on any payment date (other than the final principal payment date), the instructions must be given by the person or entity who is the holder on the relevant regular record date. In the case of the final principal payment, payment will be made only after the notes are surrendered to the paying agent. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Paying Agents

If we issue notes in certificated form, we may appoint one or more financial institutions to act as our paying agents, at whose designated offices the notes may be surrendered for payment at their maturity. We may add, replace or terminate paying agents from time to time, *provided* that if any notes are issued in certificated form, so long as such notes are outstanding, we will maintain a paying agent in the city of New York. Initially, we have appointed the trustee, at its corporate trust office in the city of New York, as our paying agent in New York.

Unclaimed Payments

Subject to abandoned payment laws, all money paid by us to a paying agent that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to us, upon our written request. After the expiration of such two- year period, the holder may look only to us for payment and not to the trustee, any other paying agent or any other Person.

The Trustee

The Bank of New York Mellon will be the trustee, registrar, paying agent and transfer agent for the Notes. The Bank of New York Mellon is located at 240 Greenwich Street, Floor 7 East, New York, New York 10286, and may be contacted at the above address, Attention: Corporate Trust Department, and by facsimile at (212) 815-5366.

Pursuant to the Indenture, the trustee may resign at any time by written notice to the Company. Majority Holders may remove the trustee by written notice to the trustee and may appoint a successor trustee reasonably acceptable to the Company. The Company may remove the trustee and appoint a successor trustee if: (i) the trustee is no longer eligible, does not have a combined capital and surplus of at least US\$100 million as set forth in its most recent published annual report or does not have a corporate trust office in the City of New York, New York or has a

conflict of interest following the occurrence and continuation of an event of default; (ii) the trustee is adjudged bankrupt or insolvent; (iii) a receiver or other public officer takes charge of the trustee or its property; or (iv) the trustee becomes incapable of acting.

Transfer Agents

We may appoint one or more transfer agents, at whose designated offices any notes in certificated form may be transferred or exchanged and also surrendered before payment is made at maturity. For so long as the notes remain outstanding, we will maintain a transfer agent in the city of New York. Initially, we have appointed the trustee, at its corporate trust office in the city of New York, as transfer agent. If we issue notes in certificated form, holders of notes in certificated form will be able to transfer their notes, in whole or in part, by surrendering the notes, with a duly completed form of transfer, for registration of transfer at the office of our transfer agent in the city of New York, at the corporate trust office of the trustee. We will not charge any fee for the registration or transfer or exchange, except that we may require the payment of a sum sufficient to cover any applicable tax or other governmental charge payable in connection with the transfer.

Notices

As long as we issue notes in global form, notices to be given to holders will be given to DTC, in accordance with its applicable policies as in effect from time to time. If we issue notes in certificated form, notices, including upon the occurrence of a Change of Control, to be given to holders will be sent by mail to the respective addresses of the holders as they appear in the register maintained by the registrar, and will be deemed given when mailed.

Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Governing Law

The Indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York, United States of America.

Submission to Jurisdiction

In connection with any legal action or proceeding arising out of or relating to the notes or the Indenture (subject to the exceptions described below), we have agreed:

- to submit to the jurisdiction of any U.S. federal or New York state court in the Borough of Manhattan, the city of New York;
- that all claims in respect of such legal action or proceeding may be heard and determined in such New York state or U.S. federal court and that we will waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of the place of residence or domicile of us; and
- to appoint CT Corporation System, with an office at 28 Liberty Street, New York, New York 1005, as process agent.

The process agent will receive, on our behalf, service of copies of the summons and complaint and any other process which may be served in any such legal action or proceeding brought in such New York state or U.S. federal court sitting in the city of New York. Service may be made by mailing or delivering a copy of such process to us at the address specified above for the process agent.

A final judgment in any of the above legal actions or proceedings will be conclusive and may be enforced in other jurisdictions, in each case, to the extent permitted under the applicable laws of such jurisdiction.

In addition to the foregoing, the holders and the trustee may serve legal process in any other manner permitted by applicable law. The above provisions do not limit the right of any holder to bring any action or proceeding against us or our properties in other courts where jurisdiction is independently established.

To the extent that we have or hereafter may acquire or have attributed to us or our property any sovereign or other immunity under any law (whether through service of notice, attachment prior to judgement, attachment in aid of execution or execution, on the ground of sovereignty or otherwise), we have agreed to irrevocably waive, to the fullest extent permitted by law, such immunity in respect to any claims or actions regarding our obligations under the notes.

Currency Indemnity

Our obligations under the Indenture and the notes will be discharged only to the extent that the relevant payee is able to purchase U.S. dollars with any other currency paid to that payee in accordance with any judgment or otherwise. If the payee cannot purchase U.S. dollars in the amount originally to be paid, we have agreed to pay the difference. The payee, however, agrees that, if the amount of U.S. dollars purchased exceeds the amount originally to be paid to such payee, the payee will reimburse the excess to us. The payee will not be obligated to make this reimbursement during the time we are in default of our obligations under Indenture or the notes.

This indemnity, to the extent permitted by law, (i) constitutes a separate and independent obligation from our other obligations under the notes and the Indenture, (ii) gives rise to a separate cause of action, (iii) applies irrespective of any waiver granted by any holder of a note or the trustee from time to time, and (iv) will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note or any judgment or order.

CLEARING AND SETTLEMENT

The Depository Trust Company

DTC is a limited-purpose trust company organized under the New York Banking Law; a “banking organization” under the New York Banking Law; a member of the Federal Reserve System; a “clearing corporation” under the New York Uniform Commercial Code; and a “clearing agency” registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between its participants. It does this through electronic book-entry settlement in the accounts of its direct participants, eliminating the need for physical movement of securities certificates. DTC is owned by a number of its direct participants and by the NYSE Euronext, the American Stock Exchange, Inc. and the Financial Industry Regulatory Authority, Inc. (successor to the National Association of Securities Dealers, Inc.).

DTC can act only on behalf of its direct participants, who in turn act on behalf of indirect participants and certain banks. In addition, unless a global security is exchanged in whole or in part for a definitive security, it may not be physically transferred, except as a whole among DTC, its nominees and their successors. Therefore, your ability to pledge a beneficial interest in the global securities to persons that do not participate in the DTC system, and to take other actions, may be limited because you will not possess a physical certificate that represents your interest.

Euroclear

Euroclear was created as a cooperative in 1968 to hold securities for Euroclear Participants, as defined below, and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of securities and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. All operations are conducted by the Euroclear Bank, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Bank, not the cooperative. The cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Sole Lead Manager and Structuring Agent (“Euroclear Participants”). Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with Euroclear Participants, either directly or indirectly. Euroclear is located at 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium.

Securities clearance accounts and cash accounts with Euroclear Bank are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Euroclear Terms and Conditions”). The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payment with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. Euroclear Bank acts under the Euroclear Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

The ability of an owner of a beneficial interest in the notes to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive note for such interest because Euroclear can act only on behalf of Euroclear Participants, who in turn act on behalf of indirect Euroclear Participants and certain banks.

Distributions with respect to the notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Bank and by Euroclear.

Clearstream

Clearstream is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for Clearstream Participants, as defined below, and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of securities. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute.

Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the Sole Lead Manager and Structuring Agent ("Clearstream Participants"). Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant either directly or indirectly. Clearstream is located at 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg.

The ability of an owner of a beneficial interest in the Regulation S notes to pledge such interest to persons or entities that do not participate in the Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive note for such interest because Clearstream can act only on behalf of Clearstream Participants, who in turn act on behalf of indirect Clearstream Participants and certain banks.

Distributions with respect to the notes held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by Clearstream.

LatinClear

LatinClear is incorporated under the laws of Panama as a corporation. LatinClear holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. LatinClear's participants include securities brokers-dealers and banks. Investors can obtain LatinClear's services through any of twenty-three participants, including brokerage houses, licensed banks and other qualified financial institutions. The rules that apply to LatinClear and its participants are on file with the SMV. LatinClear is owned by Latinex Holdings, Inc.

LatinClear is the clearinghouse in Panama for the notes. LatinClear is a participant in Euroclear and Clearstream.

TAXATION

Material Panamanian Tax Consequences

The following is a summary of the principal Panamanian income, stamp and certain tax consequences in Panama resulting from the beneficial ownership and disposition of the notes by certain investors. This summary is based on the Panamanian Tax Code of 1956, as amended, other applicable tax laws, Law Decree No. 1 of 1999 (Restated and amended from time to time) (“Panama Securities Law”) and decrees and regulations promulgated thereunder, interpretive rulings issued by tax authorities, and judicial decisions, all as in effect on the date hereof. This summary is subject to changes in these laws, decrees, regulations, rulings and judicial decisions occurring after the date hereof, possibly with retroactive effect. This summary is intended as a descriptive summary only and is not a complete analysis or listing of all potential Panamanian income tax consequences to holders of the notes. The summary does not address the tax treatment of potential investors that may be subject to special income tax withholding rules. The summary is not intended as tax advice to any particular investor, nor does it purport to furnish information in the level of detail or with attention to an investor’s specific tax circumstances that would be provided by an investor’s own tax advisor. Prospective purchasers of the notes are urged to consult their own tax advisors as to the precise Panamanian and other tax consequences of acquiring, owning and disposing of the notes.

Taxation of Interest

Interest payable on the notes will be exempt from income tax or withholding requirements in Panama, provided that the notes are registered with the SMV and are initially placed on an exchange or through an organized market. The notes are registered with the SMV and listed on the PSE. Accordingly, interest payments made on the notes will be exempt from income tax or withholding requirements in Panama; *provided, however*, that there can be no assurance that these tax benefits will not be changed or revoked by the Government in the future. Interest payments on notes that are not initially placed on the PSE are subject to a 5% income tax, which would have to be withheld by us.

Taxation of Dispositions

Upon registration of the notes with the SMV, any capital gains realized by a noteholder on the sale or other disposition of notes will be exempt from income tax in Panama, *provided* that the sale or disposition of the notes is made through an exchange or other organized market in Panama or outside of Panama. The listing and negotiation of the notes has been authorized by the PSE. Thus, any gains realized on the sale of the notes on this exchange will be exempt from income tax in Panama.

If the notes are not sold through a securities exchange or another organized market, pursuant to article 701(e) of the Panamanian Tax Code of 1956, as amended, which is regulated by Executive Decree N° 170 of October 27 of 1993 (as amended by Executive Decree No. 135 of February 6, 2012), and article 334 of the Panama Security Law (Decree Law 1 of 1999) (i) the seller will be subject to income tax in Panama on capital gains realized on the sale of the notes calculated at a fixed rate of ten percent (10%) on the gain realized, and; (ii) the buyer will be obligated to withhold from the seller an amount equal to five percent (5%) of the aggregate proceeds of the sale, as an advance in respect of the capital gains income tax payable by the seller, and the buyer will be required to send to the fiscal authorities the withheld amount within ten (10) business days following the date of withholding; (iii) the seller will have the option of considering the amount withheld by the buyer as definitive payment in full of the seller’s obligation to pay income tax on capital gains; and (iv) in the event the amount withheld by the buyer is greater than the amount of capital gains income tax payable by the seller, that is, exceeding ten percent (10%) of the capital gain actually realized on the sale, the seller may file a sworn declaration before the tax authorities claiming a tax credit or refund in respect of the amounts paid in excess.

The capital gains income tax provisions of the Panamanian Tax Code of 1956 and its regulations do not provide an exemption from income tax in Panama with respect to capital gains on sales of notes outside Panama by holders not resident in Panama. Notwithstanding Law No. 18 of June 19, 2006, based on certain opinions issued by the Dirección General de Ingresos, or the Tax Authority, any capital gains realized by a holder of notes who is not resident in Panama on the sale or other disposition of notes that is executed and effected outside Panama, and which payment thereof is made outside of Panama, will not be deemed Panamanian source income and the inference from

the foregoing would, therefore, be that the income realized from said sale would not be subject to income tax in Panama. However, we have been advised by our Panamanian counsel that the Tax Opinions are not legally binding interpretations of the 2006 Tax Law.

Stamp and Other Taxes

Upon registration of the notes with the SMV, the notes will not be subject to stamp, registration or similar taxes.

Foreign Investors

A person domiciled outside of Panama is not required to file a tax return in Panama, solely by reason of his or her investment in the notes, provided that gains realized on the sale and disposition of the notes are exempt from income tax as indicated above.

Material United States Federal Income Tax Consequences

The following is a summary of the material U.S. federal income tax consequences of your purchase, ownership and disposition of a Note pursuant to this offering. This summary is based on the provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), the regulations promulgated thereunder by the U.S. Department of the Treasury (the “Treasury Regulations”), and rulings and judicial decisions interpreting the Code as of the date that this prospectus supplement was issued. All of these authorities may be repealed, revoked or modified at any time, possibly with retroactive effect. No assurances can be given that any changes in these authorities will not affect the accuracy of the discussions set forth in this summary. This summary does not cover any U.S. state, U.S. local or non-U.S. tax issues, nor does it cover issues under the U.S. federal estate or gift tax laws.

The Company has not sought any ruling from the U.S. Internal Revenue Service (the “IRS”) with respect to the statements made and the conclusions reached in this summary, and there can be no assurance that the IRS will agree with all of such statements and conclusions. A different treatment from that described below could adversely affect the amount, timing, and character of income, gain or loss in respect of an investment in the notes.

This summary deals only with holders that hold a Note as a capital asset for U.S. federal income tax purposes (generally, property held for investment). This summary does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to a particular holder in light of the holder’s circumstances.

In particular, this summary assumes that you are not subject to any special U.S. federal income tax rules, including, among others, the special tax rules applicable to:

- persons subject to special tax accounting rules under Section 451(b) of the Code;
- dealers in securities or currencies;
- securities traders using a mark-to-market accounting method;
- banks or life insurance companies;
- regulated investment companies;
- real estate investment trusts;
- persons subject to the alternative minimum tax provisions of the Code;
- persons that purchase or sell the notes as part of a wash sale for U.S. federal income tax purposes;
- persons that purchase or sell the notes as part of a hedging transaction or as a position in a straddle, conversion or other integrated transaction;
- partnerships or other entities treated as partnerships for U.S. federal income tax purposes, or persons holding the notes through partnerships or other pass-through entities;
- U.S. Holders (as defined below) that do not use the U.S. dollar as their functional currency; or

- tax-exempt organizations.

If any of these assumptions are not correct in your case, the purchase, ownership or disposition of a Note may have U.S. federal income tax consequences for you that differ from, or are not covered in, this summary.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a Note, the U.S. federal income tax treatment of a partner in that partnership generally will depend on the status of the partner and the activities of the partnership. Holders of notes that are partnerships and partners in those partnerships should consult their own tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the notes.

In December 2017, the United States enacted U.S. federal income tax reform, which significantly changed the U.S. federal income tax system. Although this summary takes into account this new U.S. federal income tax law, its provisions are complex and there is limited administrative guidance about its application. Prospective investors should consult their own tax advisors regarding the potential impact of this new U.S. federal income tax law on the U.S. federal income tax consequences to them in light of their particular circumstances.

In certain circumstances (see “Description of the Notes—Optional Redemption for Taxation Reasons”), we may be obligated to pay additional amounts to optionally redeem the notes. These potential payments may implicate the provisions of the Treasury Regulations relating to “contingent payment debt instruments.” Under these regulations, however, a contingency should not cause a debt instrument to be treated as a contingent payment debt instrument if, as of the issue date, such contingency is considered “remote” or “incidental” or, in certain circumstances, it is significantly more likely than not that the contingency will not occur. We intend to take the position that the foregoing potential obligation to pay certain additional amounts should not cause the notes to be treated as contingent payment debt instruments for U.S. federal income tax purposes. Our position is binding on a holder unless such holder discloses its contrary position in the manner required by the applicable Treasury Regulations. It is possible that the IRS may take a different position, in which case, if such position is sustained, the timing and amount of income included and the character of the income recognized with respect to the notes may be materially and adversely different from the consequences discussed herein. The remainder of this summary assumes that the notes will not be treated as contingent payment debt instruments. You should consult your own tax advisor regarding the possible application of the contingent payment debt instrument rules to the notes.

The Company expects, and the remainder of this summary assumes, that the notes will not be issued with greater than a de minimis amount of “original issue discount” for U.S. federal income tax purposes.

You should consult your own tax advisor concerning the U.S. federal, U.S. state, U.S. local, non-U.S. and other tax consequences to you of the purchase, ownership or disposition of a note.

Deemed Taxable Exchange

A change made to the terms of the notes pursuant to the discussion under “Description of the Notes—Meetings, Amendments and Waivers” may give rise to a deemed taxable exchange of the notes for U.S. federal income tax purposes upon which gain or loss is realized if the modified note differs materially either in kind or extent from the original note (a “Significant Modification”). Such gain or loss would generally be measured by the difference between the fair market value of the note after the Significant Modification and the holder’s tax basis in such note before the Significant Modification. A modification of a note that is not a Significant Modification does not create a deemed exchange for U.S. federal income tax purposes. Under applicable Treasury Regulations, the modification of a note is a Significant Modification if, based on all of the facts and circumstances and taking into account all modifications of the note collectively (other than modifications that are subject to special rules), the legal rights or obligations that are altered and the degree to which they are altered are “economically significant.” The applicable Treasury Regulations also provide specific rules to determine whether certain modifications, such as a change in the timing of payments, are significant. See the discussion under “Description of the Notes—Meetings, Amendments and Waivers” for more information about potential amendments of certain key terms of the notes.

U.S. Holders

This section applies to you if you are a “U.S. Holder,” meaning that you are the beneficial owner of a note and you are:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation (or other entity classified as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust (A) if a court within the United States is able to exercise primary jurisdiction over your administration and one or more “United States persons” as defined in the Code (each a “U.S. Person”) have authority to control all your substantial decisions, or (B) that was in existence on August 20, 1996 and has made a valid election under the Treasury Regulations to be treated as a U.S. trust.

If you are not a U.S. Holder, this section does not apply to you and you should refer to “—Non-U.S. Holders” below.

Payments of Interest. Payments or accruals of stated interest on a note generally will be taxable to you as ordinary income. If you generally report your taxable income using the accrual method of accounting, you must include payments of interest in your income as they accrue. If you generally report your taxable income using the cash method of accounting, you must include payments of interest in your income when you actually or constructively receive them.

You must include any tax withheld from the interest payment as ordinary income even though you do not in fact receive it. You may be entitled to deduct or credit this tax, subject to applicable limits. You will also be required to include in income as interest any additional amounts paid with respect to withholding tax on the notes, including withholding tax on payments of such additional amounts. For purposes of the foreign tax credit provisions of the Code, interest (including any additional amounts) on a note generally will constitute foreign source income and will be categorized as passive or another category of income depending on your circumstances.

Disposition of the notes. If you sell or otherwise dispose of a note, you generally will recognize gain or loss equal to the difference between your “amount realized” and your “adjusted tax basis” in the note. Your “amount realized” generally will be the amount of cash plus the value of any other property you receive for selling or otherwise disposing of the note, other than amounts that represent interest that is due to you but that has not yet been paid (which generally will be taxed to you as ordinary income to the extent not previously included in income). Your “adjusted tax basis” in the note generally will equal the amount that you paid for the note, decreased by any cash payments of principal that you have received with respect to the note.

Gain or loss from the sale or other disposition of a note generally will be capital gain or loss, and will be long-term capital gain or loss if at the time you sell or dispose of the note, you have held the note for more than one year, or will be short-term capital gain or loss if you have held the note for one year or less. Under the current U.S. federal income tax law, net long-term capital gains of non-corporate taxpayers may be taxed at lower rates than items of ordinary income. Your ability to offset capital losses against ordinary income is limited. Any capital gains or losses that arise when you sell or dispose of a note generally will be treated as U.S.-source income, or loss allocable to U.S.-source income, for purposes of the foreign tax credit provisions of the Code. Accordingly, if any Panamanian taxes are imposed on gain on a disposition of a note, you may be unable to claim a foreign tax credit for such taxes unless you have other sufficient foreign source income. Alternatively, you may deduct such Panamanian taxes in computing taxable income for U.S. federal income tax purposes provided that you do not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year.

Medicare Tax. A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8 percent Medicare tax on the lesser of (i) the U.S. Holder’s “net investment income” (or, in the case of an estate or trust, the “undistributed net investment income”) for the relevant taxable year and (ii) the excess of the U.S. Holder’s modified adjusted gross income for the taxable year

over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally will include its interest income and its net gains from the disposition of the notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are an individual, estate or trust, you are urged to consult your own tax advisor regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the notes.

Information with Respect to Foreign Financial Assets. Owners of "specified foreign financial assets" with an aggregate value in excess of \$50,000 on the last day of the taxable year, or \$75,000 at any time during the taxable year, may be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on your circumstances, higher threshold amounts may apply. "Specified foreign financial assets" include any financial accounts maintained by non-U.S. financial institutions, as well as any of the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. Persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties, and (iii) interests in non-U.S. entities. The notes may be treated as specified foreign financial assets and you may be subject to this information reporting regime. Failure to file information reports may subject you to penalties. You should consult your own tax advisor regarding your obligation to file information reports with respect to the notes.

Non-U.S. Holders

This section applies to you if you are a "Non-U.S. Holder," meaning that you are a beneficial owner of a note and are not a partnership for U.S. federal income tax purposes and not a "U.S. Holder" as defined above.

Payments of Interest. Subject to the discussion of backup withholding below, you generally will not be subject to U.S. federal income tax, including withholding tax, on interest that you receive on a note unless you are engaged in a trade or business in the United States and the interest on the note is treated for U.S. federal income tax purposes as "effectively connected" to that trade or business (and in addition, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed place of business maintained by you within the United States). If you are engaged in a U.S. trade or business and the interest income is deemed to be effectively connected to that trade or business, you generally will be subject to U.S. federal income tax on that interest in the same manner as if you were a U.S. Holder (unless the interest is excluded under an applicable tax treaty). In addition, if you are a corporation for U.S. federal income tax purposes, your interest income subject to tax in that manner may increase your liability under the U.S. branch profits tax currently imposed at a 30% rate (or a lower rate under an applicable tax treaty).

Disposition of the Notes. Subject to the backup withholding discussion below, you generally will not be subject to U.S. federal income tax or withholding tax for any capital gain that you realize when you sell or otherwise dispose of a note unless:

1. that gain is effectively connected for U.S. federal income tax purposes to any U.S. trade or business you are engaged in (and in addition, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base in the United States); or
2. if you are an individual, you are present in the United States for 183 days or more in the taxable year in which you sell or otherwise dispose of the note and either (i) you have a tax home (as defined in the Code) in the United States during the taxable year in which you sell or otherwise dispose of the note, or (ii) the gain is attributable to any office or other fixed place of business that you maintain in the United States.

If you are described under (1) above, you generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if you are a corporation for U.S. federal income tax purposes, you may also be subject to the U.S. branch profits tax as described above. If you are described under (2) above, you generally will be subject to a 30 percent U.S. federal tax on the gain derived from the sale or other disposition of a note, which may be offset by certain U.S. source capital losses (notwithstanding the fact that you are not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on a note

generally will be treated in the same manner as payments of interest made to you, as described above under “— Payments of Interest.”

Backup Withholding and Information Reporting

If you are a U.S. Holder, and unless you prove that you are exempt, information reporting requirements will apply to payments of principal and interest to you if such payments are made within the United States or by or through a custodian, nominee or other agent that is a “U.S. Controlled Person,” as defined below. Backup withholding will apply to such payments of principal and interest if (i) you fail to provide an accurate taxpayer identification number; (ii) in the case of interest payments, you fail to certify that you are not subject to backup withholding; (iii) you are notified by the IRS that you have failed to report all interest and dividend income required to be shown on your U.S. federal income tax returns; or (iv) you fail to demonstrate your eligibility for an exemption.

If you are a Non-U.S. Holder, you generally are exempt from these withholding and reporting requirements (assuming that the gain or income otherwise is exempt from U.S. federal income tax), but you may be required to comply with certification and identification procedures in order to prove your exemption. If you hold a note through a non-U.S. partnership, these certification procedures generally would be applied to you as a partner. If you are paid the proceeds of a sale or redemption of a note effected at the U.S. office of a broker, you generally will be subject to the information reporting and backup withholding rules. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a “U.S. Controlled Person,” as defined below, unless the broker has documentary evidence that you are not a U.S. Holder (and has no actual knowledge or reason to know to the contrary) or you otherwise establish an exemption. A U.S. Controlled Person includes:

- a U.S. Person;
- a “controlled foreign corporation” for U.S. federal income tax purposes;
- a non-U.S. Person 50% or more of whose gross income is effectively connected with a U.S. trade or business for tax purposes for a specified three-year period; or
- a non-U.S. partnership in which U.S. Persons hold more than 50% of the income or capital interests or which is engaged in a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to you generally will be allowed as a refund or a credit against your U.S. federal income tax liability as long as you provide the required information to the IRS in a timely manner.

PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement among us and the initial purchasers, we have agreed to sell to the initial purchasers, and each initial purchaser has severally agreed to purchase, the principal amount of notes set forth opposite its name below.

Initial Purchaser	Principal Amount of Notes
Merrill Lynch, Pierce, Fenner & Smith Incorporated	U.S.\$
Scotia Capital (USA) Inc.	U.S.\$
Banco General, S.A.	U.S.\$
Total	U.S.\$

The obligations of the initial purchasers under the purchase agreement, including their agreement to purchase notes from us, are several and not joint. The purchase agreement provides that the initial purchasers will purchase all the notes if any of them are purchased. We will indemnify the initial purchasers and their controlling persons against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the initial purchasers may be required to make in respect of those liabilities.

The Offering is subject to certain conditions, including purchase of the notes by the initial purchasers through the Panama Stock Exchange.

The initial purchasers are offering the notes, when, as and if issued by the Issuer and accepted by the initial purchasers. The offering of the notes is subject to the prior purchase of the notes in the public auction described below by the initial purchasers if and only if the bid of the initial purchasers on the Panama Stock Exchange is the highest (and in case of equality, earliest) bid, such bid is subsequently accepted by the Issuer and subject to the approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. See "Description of the Public Auction Process". The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The initial purchasers initially propose to offer the notes for resale at the issue price that appears on the cover of this offering memorandum. After the initial offering, the initial purchasers may change the offering price and any other selling terms. The initial purchasers may offer and sell notes through certain of their affiliates.

Description of the Public Auction Process

The notes have been listed on and will be offered by the Issuer through the Panama Stock Exchange on the Issue Date. The Issuer has appointed BG Investment Co., Inc., as the Broker-Dealer House of the offering through the Panama Stock Exchange. BG Investment Co., Inc. has a Trading Post at the Panama Stock Exchange and is a broker-dealer authorized to act as such by the SMV, pursuant to Resolutions CNV-322-00 of November 24, 2000 and CNV-376-00 of December 22, 2000 respectively.

As set forth in the Primary Market Manual Proceeding of the Panama Stock Exchange, as amended, the public auction process described below is applicable to the notes.

The Panamanian public auction procedures applicable to the notes will be those applicable to the "first session of the primary market," which is a session solely available on the Panama Stock Exchange for certain

issuances of securities in respect of which settlement takes place totally or partially in the international markets, including, among others, this offering of the notes.

At 8:00 a.m. and up to 9:00 a.m. (Panama time) on the date the Company offers the notes through the Panama Stock Exchange, a trading session in respect of the notes will be open, on the one hand, for each person registered as a member of the Panama Stock Exchange (a “Local Broker”) as potential purchasers of the notes, and, on the other hand, for the Issuer as issuer and seller of the notes. During this period, any Local Broker will be permitted to submit a bid to purchase the notes and the Issuer will be permitted to present its offer to sell the notes on the Panama Stock Exchange. Any such bids to purchase the notes are required to be for the full principal amount of the offering. At 8:00 a.m. (Panama time), or promptly thereafter, on the same date, the initial purchasers will submit their bid to purchase the notes through BG Valores, S.A., which bid shall be for the totality of the notes.

In the purchase agreement relating to the notes we have agreed that if the initial purchasers shall not have placed and secured the highest (and in case of equality, earliest) bid price for the notes, we will withdraw any offer to sell the notes on the Issue Date on the Panama Stock Exchange and any such offer shall immediately be withdrawn and cancelled and be of no further force or effect. See “Risk Factors—Risks Related to the Notes and this Offering—The public auction at the Panama Stock Exchange will allow any investor to submit a bid for the notes and the bidder submitting the highest, and in case of equality the earliest, bid would have the right to purchase the notes. If a bidder different from the initial purchasers submits a higher or an equal but earlier bid, you will not receive the notes on the Issue Date as we will abstain from selling and the offering will be cancelled in consideration to the liabilities that the Issuer could face under the purchase agreement.”

The offices of BG Investment Co., Inc. are located at calle Aquilino de la Guardia y Ave. 5ta B Sur, Panama City, Republic of Panama and their telephone number is + (507) 303-5001 and their fax number is (507) 265-0291.

BG Investment Co., Inc. will enter into a broker-dealer house agreement with the Issuer to carry out the sale of the notes through the Panama Stock Exchange. Among the services to be rendered in their role as placing agent of the notes, BG Investment Co., Inc. may:

- (i) carry out the offers of the notes through the Panama Stock Exchange pursuant to the rules of the Panama Stock Exchange subject to the terms and conditions set forth in the purchase agreement; and
- (ii) deliver to the broker-dealer houses, brokers, investments advisors and the public in general, this offering memorandum of the notes and any amendments to it.

No Sales of Similar Securities

In the purchase agreement, we have agreed to not offer or sell any of our debt securities (other than the notes and the notes issued pursuant to our local bond issuance program) for a period of 180 days after the date of this offering memorandum without the prior consent of the initial purchasers.

Notes Are Not Being Registered

The notes have not been registered under the Securities Act. In the purchase agreement, each initial purchaser has agreed that:

- The notes may not be offered or sold within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements.
- During the initial distribution of the notes, it will offer or sell notes only to qualified institutional buyers in compliance with Rule 144A and outside the United States in compliance with Regulation S.

In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the

registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

New Issue of Notes

The notes are a new issue of securities, and there is currently no established trading market for the notes.

In addition, the notes are subject to certain restrictions on resale and transfer as described under “Transfer Restrictions.” The initial purchasers have advised us that they intend to make a market in the notes, but they are not obligated to do so. The initial purchasers may discontinue any market making in the notes at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the notes, that you will be able to sell your notes at a particular time, or that the prices that you receive when you sell will be favorable. You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

Price Stabilization and Short Positions

In connection with the offering of the notes, the initial purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the initial purchasers. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions. If the initial purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

Settlement

We expect that delivery of the notes will be made against payment therefor on or about _____, 2019, which will be the _____ business day following the date of this offering memorandum (such settlement being referred to as “T+ _____”). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market are generally required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes prior to two business day before settlement will be required to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the notes who wish to trade the notes prior to two business day before settlement should consult their own advisors. See “Risk Factors—Risks Related to the Notes and this Offering—The settlement procedures associated with the offering of the notes on the Panama Stock Exchange are complex, must be effected over the course of a short period of time on the Issue Date and depend to a significant degree on the cooperation of various public officials of the Republic of Panama, including the Comptroller General, who are not within our ability to control or direct. Any delays involving these Panamanian settlement procedures may cause correlative delays in respect of the settlement and delivery of the notes on the system of DTC, with the result that the actual settlement and delivery of the notes may not be completed on the Issue Date” and “Risk Factors—Risks Related to the Notes and this Offering—Investors should consider the risks of trading their bonds in the secondary market prior to the Issue Date as settlement is conditioned on the Initial Purchasers having the winning bid on the Panama Stock Exchange and even if the Initial Purchasers do have the winning bid, settlement delays may result in delivery to investors of notes on the business day following the intended settlement date.”

Banco General, S.A.

Banco General, S.A. is not a broker-dealer registered with the United States Securities and Exchange Commission and therefore may not solicit offers to purchase or make sales of any Notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations.

Other Relationships

Certain of the initial purchasers have performed commercial banking, investment banking and advisory services for us and our affiliates from time to time for which they have received customary fees and reimbursement of expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of their business for which they may receive customary fees, interest, commissions and reimbursement of expenses. In particular, Scotiabank is a lender under the Citibank Facility and Banco General, S.A. is the lender under the Banco General Facilities. See “Use of Proceeds.”

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the initial purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

Brazil

The notes have not been, and will not be registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*). The notes are not being offered in Brazil. Documents relating to the offering of the notes, as well as information contained therein may not be supplied in Brazil, nor be used in connection with any offer for subscription or sale of the notes in Brazil

Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial

purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Chile

The offer of the notes is subject to General Rule No. 336 issued by the *Superintendencia de Valores y Seguros de Chile* (Chilean Securities and Insurance Superintendency or “SVS”). The commencement date of this offering is the one contained in the cover pages of this offering memorandum. The notes will not be registered in the *Registro de Valores* (Securities Registry) or the *Registro de Valores Extranjeros* (Foreign Securities Registry), both kept by the SVS and will not be subject to the supervision of the SVS. As unregistered securities, the Company has no obligation to deliver/disclose public information about the notes in Chile. The notes cannot and will not be publicly offered in Chile unless registered in the *Registro de Valores* (Securities Registry) or the *Registro de Valores Extranjeros* (Foreign Securities Registry), both kept by the SVS. If the notes are offered within Chile, they will be offered and sold only pursuant to General Rule 336 of the SVS, an exemption to the registration requirements, or in circumstances which do not constitute a public offer of securities under Chilean law.

La oferta de los valores se acoge a la Norma de Carácter General N°336 de la Superintendencia de Valores y Seguros o “SVS”. La fecha de inicio de la presente oferta es la indicada en la portada de este offering memorandum. Los valores no estarán inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, y tales valores no estarán sujetos a la fiscalización de la SVS. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Los valores no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores o el Registro de Valores Extranjeros que lleva la SVS. Si los valores son ofrecidos dentro de Chile, serán ofrecidos y colocados sólo de acuerdo a la Norma de Carácter General N°336 de la SVS, una excepción a la obligación de inscripción, o en circunstancias que no constituyan una oferta pública de valores en Chile de conformidad a la ley chilena.

Colombia

The notes have not been, and will not be, registered in the National Securities and Issuers Registry (*Registro Nacional de Valores y Emisores*) of Colombia or traded on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Therefore, the notes may not be publicly offered in Colombia or traded on the Colombian Stock Exchange.

The offering memorandum is for the sole and exclusive use of the addressee as an offeree in Colombia, and the offering memorandum shall not be interpreted as being addressed to any third party in Colombia or for the use of any third party in Colombia, including any shareholders, administrators or employees of the addressee.

The recipient of the notes acknowledges that certain Colombian laws and regulations (specifically foreign exchange and tax regulations) are applicable to any transaction or investment made in connection with the notes being offered and represents that it is the sole party liable for full compliance with any such laws and regulations.

Dubai

In the Dubai International Financial Centre (the “DIFC”), the notes have not been and are not being, publicly offered, sold, promoted or advertised other than in compliance with the laws of the DIFC and applicable rules of the Dubai Financial Services Authority (the “DFSA”). No offer of the notes shall be made to any person in or from the DIFC unless such offer is

- 1) an “Exempt Offer” for the purposes of the Markets Rules (“MKT”) module of the DFSA Rulebook; and
- 2) made only to persons who meet the “Professional Client” criteria set out in Rule 2.3.3 of the Conduct of Business module of the DFSA Rulebook.

This document has not been and will not be filed with the DFSA or with any other authority in the DIFC and no such authority assumes any liability for its contents.

Prohibition of Sales to EEA Retail Investors

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This offering memorandum has been prepared on the basis that any offer of notes in any Member State of the EEA will be made pursuant to an exemption under the Directive 2003/71/EC (as amended, the “Prospectus Directive”) from the requirement to publish a prospectus for offers of notes. This offering memorandum is not a prospectus for the purposes of the Prospectus Directive.

The above selling restriction is in addition to any other selling restrictions set out below.

Hong Kong

This offering memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. No person may offer or sell in Hong Kong, by means of any document, any notes other than (1) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or (2) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Ireland

Each initial purchaser has represented, warranted and agreed (and each additional initial purchaser appointed under the offering will be required to represent, warrant and agree) that:

- 1) it will not offer, underwrite the issue of, or place, the notes otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended) including, without limitation, Regulations 7 and 152 thereof or any codes of conduct issued in connection therewith, and the provisions of the Investor Compensation Act 1998;
- 2) it will not offer, underwrite the issue of, or place, the notes, otherwise than in conformity with the provisions of the Central Banks Acts 1942 to 2011 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;
- 3) it will not offer, underwrite the issue of, or place, or do anything in Ireland in respect of the Securities otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland (the “Central Bank”);
- 4) it will not offer, underwrite the issue of, place, or otherwise act in Ireland in respect of the notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 (as amended) and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank; and

- 5) no notes will be offered or sold with a maturity of less than 12 months except in full compliance with Notice BSD C 01/02 issued by the Central Bank.

Italy

The offering of the notes has not been cleared by the *Commissione Nazionale per la Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation. Accordingly, each initial purchaser has represented and agreed that it has not offered, sold or delivered, directly or indirectly, any notes to the public in the Republic of Italy.

For the purposes of this provision, the expression “offer of notes to the public” in Italy means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, including the placement through authorized intermediaries.

Each initial purchaser has represented and agreed that it will not offer, sell or deliver, directly or indirectly, any note or distribute copies of this offering memorandum or of any other document relating to the notes in the Republic of Italy except:

- 1) to qualified investors (*investitori qualificati*), as defined under Article 100 of the Legislative Decree No. 58 of February 24, 1998, as amended (the “Italian Financial Act”), as implemented by Article 26, paragraph 1(d) of CONSOB Regulation No. 16190 of October 29, 2007, as amended (“Regulation No. 16190”), pursuant to Article 34-ter, first paragraph, letter b), of CONSOB Regulation No. 11971 of May 14, 1999, as amended (“Regulation No. 11971”); or
- 2) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Act and its implementing CONSOB regulations including Regulation No. 11971.

Any such offer, sale or delivery of the notes or distribution of copies of the offering memorandum or any other document relating to the notes in the Republic of Italy must be in compliance with the selling restriction under (1) and (2) above and:

- a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Financial Act, Regulation No. 16190, Legislative Decree No. 385 of September 1, 1993 as amended (the “Banking Act”) and any other applicable laws or regulation;
- b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy or by Italian persons outside of Italy; and
- c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy or any other Italian authority.

Any investor purchasing the notes is solely responsible for ensuring that any offer, sale, delivery or resale of the notes by such investor occurs in compliance with applicable Italian laws and regulations.

Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the FIEA) and each initial purchaser has represented and agreed that it will not offer or sell any note, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organized under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Luxembourg

The notes may not be offered or sold to the public in the Grand Duchy of Luxembourg, directly or indirectly, and, neither this offering memorandum nor any other circular, prospectus, form of application, advertisement, communication or other material may be distributed, or otherwise made available in, or from or published in, the Grand Duchy of Luxembourg, except for the sole purpose of the admission to trading and listing of the notes on the Official List of the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of securities to the public.

Mexico

The notes have not been, and will not be, registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) and, therefore the notes may not be publicly offered or sold nor be the subject of intermediation in Mexico, publicly or otherwise, except that the notes may be offered in Mexico to institutional and qualified investors pursuant to the private placement exception set forth in Article 8 of the Mexican Securities Market Law.

Peru

Neither this offering memorandum nor the notes have been registered with the Peruvian Securities Market Regulator (*Superintendencia del Mercado de Valores*). Accordingly, each initial purchaser has further represented and agreed, and each further initial purchaser appointed under the offering will be required to represent and agree, that it and each of its affiliates has not offered or sold, and will not offer or sell, any notes in Peru except that they may offer notes in circumstances which do not constitute a public offering under Peruvian laws and regulations.

The notes will not be registered in the *Registro Público del Mercado de Valores*. As a result, the offering of the notes is limited to the restrictions set forth in the Peruvian Securities Market Law. Holders of the notes are not permitted to transfer the notes in Peru unless said transfer involves an institutional investor or the notes are previously registered in the *Registro Público del Mercado de Valores*.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the notes were not offered or sold or caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or caused to be made the subject of an invitation for subscription or purchase, and this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, has not been circulated or distributed, nor will it be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:

- a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- b) where no consideration is or will be given for the transfer;
- c) where the transfer is by operation of law; or
- d) as specified in Section 276(7) of the SFA.

Switzerland

The notes are not being offered to the public in Switzerland. Therefore, this document constitutes neither a public offer in Switzerland nor a prospectus in accordance with applicable legislation in Switzerland and may not be issued, distributed or published in Switzerland in a manner which would be deemed to constitute a public offer of the notes in Switzerland.

United Kingdom

Each initial purchaser has represented, warranted and agreed that:

- 1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- 2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

PANAMANIAN CORPORATE GOVERNANCE DISCLOSURE

As of the date of this offering memorandum, we have adopted internal rules and procedure of good corporate governance. We maintain solid and positive corporate governance practices, such as:

- We have directly applied assignment and supervision of all the activities of the company to the board of directors;
- We have implemented standards that have granted independence to our managers and mid-level officer from directors and shareholders;
- We have implemented mechanisms that promote adjustments and changes in the board of directors and its members in order to streamline execution processes;
- We have implemented rules that prevent that control be focused in a small group of officers and directors;
- We have implemented support committees focused on compliance, risk management and audit;
- We have implemented procedures necessary for the promotion of transparency within ETESA;
- We have regular internal work meetings aimed at the fulfillment of our plans and strategies;
- We have implemented standards for the preparation of board of director minutes and their proper placement;
- We have ensured that each manager has the appropriate resources needed for the execution of their supervisory functions;
- We have implemented procedures aimed at the responsible and precise distribution of publicly available information;
- We have a defined corporate structure;
- We have a clear and defined business plan;
- We have established parameters that lay out remuneration, expense reimbursement and other benefits; and
- We have implemented mechanisms of identifying and preventing conflicts of interests.

ESTIMATED EXPENSES OF THE ISSUE

The local Panamanian regulations and SMV guidelines require that we disclose an estimate of the total expenses and costs of this offering.

The total estimated public price below is an estimate and as such is not indicative of the actual price of the issue. We have estimated the expenses in connection with the issuance of our notes in this offering based on a total estimated public price of U.S.\$500,000,000, as follows:

	Recurrence	Approximate Cost in U.S.\$	%
Commissions			
Structuring and Placement + Taxes	One time	1,750,000	0.35
Payment Agent + Taxes	Annual	7,500	0.0015
Panama Stock Exchange			
Negotiation Fee	One Time	181,866	0.036
Listing Fee	One Time	350	0.00007
Registration Fee	One time	75	0.000015
Latin Clear			
Registration Fee + Taxes	One time	43,870	0.00877%
SMV			
Registration Fee for a Public Offer	One time	100,000	0.020
Supervision Fee	Annual	20,000	
Total⁽¹⁾		2,103,811	0.420

⁽¹⁾ Please take note that the issuance expenses table does not itemize certain fees, commissions and/or expenses, including without limitation, those payable to the indenture trustee and other expenses related to the offering of the notes such as legal, rating agency and accounting fees, which amount to a total of approximately \$955,000.

TRANSFER RESTRICTIONS

The notes are subject to restrictions on transfer as summarized below. By purchasing notes you will be deemed to have made the following acknowledgements, representations to and agreements with the initial purchasers and us:

1. You acknowledge that:
 - the notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
 - unless so registered, the notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:
 - you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the notes to you in reliance on Rule 144A; or
 - you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, and you are purchasing notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the initial purchasers nor any person representing us or the initial purchasers has made any representation to you with respect to us or the offering of the notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the notes. Accordingly, you acknowledge that no representation or warranty is made by the initial purchaser as to the accuracy or completeness of such materials. You agree that you have had access to such financial and other information concerning us and the notes as you have deemed necessary in connection with your decision to purchase notes, including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing notes, and each subsequent holder of the notes by its acceptance of the notes will agree, that until the end of the Resale Restriction Period (as defined below), the notes may be offered, sold or otherwise transferred only:
 - (a) to us;
 - (b) under a registration statement that has been declared or become effective under the Securities Act;

- (c) for so long as the notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;
- (d) through offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act; or
- (e) under any other available exemption from the registration requirements of the Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the Company elects to remove the legend (in the case of Rule 144A notes) or 40 days (in the case of Regulation S notes) after the later of the closing date and the last date that we or any of our affiliates was the owner of the notes or any predecessor of the notes (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends;
- we and the trustee reserve the right to require in connection with any offer, sale or other transfer of notes under clause (d) or (e) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Company; and
- each note will contain a legend substantially to the following effect:

For Rule 144A notes:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (B) IT IS A NON-U.S. PURCHASER AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, AND (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED OR BECOME EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER. THIS LEGEND WILL BE REMOVED ONLY AT THE OPTION OF THE ISSUER.

For Regulation S notes:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (B) IT IS A NON-U.S. PURCHASER AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, AND (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH NOTE), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED OR BECOME EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

5. You acknowledge that we, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of notes is no longer accurate, you will promptly notify us and the initial purchasers. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.
6. Each purchaser represents and covenants and each subsequent transferee is deemed to represent and covenant, that it is not, and is not acquiring the notes with the assets of, or for or on behalf of, any employee benefit plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended) or other arrangement that is subject to ERISA or Section 4975 of the Code (a "Plan") or any entity whose underlying assets are of a Plan pursuant to 29C.F.R. Section 2510.3-101 or otherwise, except to the extent that the acquisition of the notes:
 - (a) (i) is made with the assets of a bank collective investment fund, and (ii) satisfies the applicable requirements and conditions of Prohibited Transaction Class Exemptions 91-38 issued by the Department of Labor;
 - (b) (i) is made with the assets of an insurance company pooled separate account, and (ii) satisfies the applicable requirements and conditions of Prohibited Transaction Class Exemption 90-1 issued by the Department of Labor;

- (c) (i) is made with the assets managed by a qualified professional asset manager, and (ii) satisfies the applicable requirements and conditions of Prohibited Transaction Class Exemption 84-14 issued by the Department of Labor;
- (d) is made with the assets of a governmental plan (as defined in Section 3(32) of ERISA) which is not subject to the provisions of Section 401 of the Code;
- (e) (i) is made with the assets of an insurance company general account, and (ii) satisfies the applicable requirements and conditions of Prohibited Transaction Class Exemption 95-60 issued by the Department of Labor; and/or
- (f) (i) is made with the assets managed by an in-house asset manager, and (ii) satisfies the applicable requirements and conditions of Prohibited Transaction Class Exemption 96-23 issued by the Department of Labor.

LEGAL MATTERS

Certain legal matters with respect to New York law and the validity of the bonds will be passed upon for us by Arnold & Porter Kaye Scholer LLP, our U.S. counsel, and by Icaza, González-Ruiz & Alemán, our Panamanian counsel. Certain legal matters will be passed upon for the initial purchaser by Milbank LLP, U.S. counsel for the initial purchaser, and by Alemán, Cordero, Galindo & Lee, Panamanian counsel for the initial purchaser.

INDEPENDENT AUDITORS

The financial statements of Empresa de Transmisión Eléctrica, S.A. as of December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018 included in this offering memorandum have been audited by KPMG, an independent auditors, as stated in their report appearing herein.

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**EMPRESA DE TRANSMISION
ELECTRICA, S. A. (ETESA)**

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

Financial Statements

As of December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016
(With the Independent Auditors' report)

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

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KPMG
Apartado Postal 816-1089
Panamá 5, República de Panamá

Teléfono: (507) 208-0700
Fax: (507) 263-9852
Internet: www.kpmg.com

Independent Auditors' Report

To the Shareholder of Empresa de Transmisión Eléctrica, S. A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Empresa de Transmisión Eléctrica, S. A. ("the Company"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, the statements of profit or loss, changes in equity and cash flows for the three years ended December 31, 2018, 2017 and 2016, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the three years ended December 31, 2018, 2017 and 2016 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Panama and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Properties, plant, equipment and leasehold improvements and construction in progress

See notes 6.c, 6.d, 11 and 12 to the financial statements

Key audit matter

How our audit addressed the Key Audit Matter

The Company has in total B/. 712,526,847 related to properties, plant, equipment, leasehold improvements and construction in progress that represent 73% of total assets. This amount contain expenditures capitalized during the year by B/.103,956,567 principally in the main transmission system. This amount contain capitalized personnel expenses and other equipment acquired.

The expenditures that can be capitalized, how the components have to be separated and the determination of the related useful life and residual value, require judgments.

- Obtaining an understanding and testing the operating effectiveness of the controls over additions of fixed assets;
- Obtaining an understanding of how the Company is determining the useful life and residual value of the fixed assets to determine if it is carried out properly.
- Performing substantive test of additions during the year on a sample basis by examining relevant documents such as invoices, payments and the reports of the personnel assigned to the construction in progress to evaluate whether additions have been properly capitalized;
- Recalculated the corresponding depreciation of the year; and
- Visit and inspect some projects selected on a sample basis.

Other Information

Management is responsible for the other information. The other information comprises the *information included in the Panamanian Prospectus, the Preliminary Offering Memorandum, both of which we have obtained at the date of our report and Final Offering Memorandum, which we expect to obtain after the date of our report (together referred to as the "Offering Memorandum"), which will be used for securities offering in Panama, In the United States of America to be offered to qualified institutional buyers as per and under the exemption of Rule 144A of the Securities Act of 1933 (the "Securities Act") and outside the United States of America under Regulation S of the Securities Act,, The Offering Memorandum includes the financial statements and our auditors' report thereon.*

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As of the date of our report, we have nothing to report in this regard

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Ezequiel Tem.

KPMG

Panama, Republic of Panama
April 10, 2019

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 at December 31, 2018 and 2017

(Figures in balboas)

<u>Assets</u>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Non-current assets			
Investment in associates	9, 20	15,056,166	14,195,114
Investment in joint venture	10, 20	2,517,599	2,567,595
Property, plant, equipment and improvements to the property, net of accumulated depreciation and amortization	11	582,227,988	523,548,117
Construction in the process	12	130,298,859	114,023,707
Right of way, net	13	83,344,856	85,242,278
Inventory of spare parts, net	14	4,206,432	3,648,678
Loan receivable associates	9, 33	2,596,154	2,942,308
Seniority Premium Payment and Severance Fund	6	2,148,455	1,922,489
Advance to Contractors	15	9,950,429	4,137,865
Deferred asset	32	885,826	0
Other assets	16	2,116,603	2,116,784
Total of non-current assets		835,349,367	754,344,935
Current assets			
Cash	17	19,468,626	26,152,057
Restricted cash	17	0	550,000
Accounts receivable:			
Energy distributors	20, 33	45,455,698	7,494,879
Energy generators	20, 33	22,773,335	9,990,742
Government entities	20, 33	588,464	588,464
Other market agents	18, 21, 32	1,174,099	1,027,284
Other		5,177,739	219,624
		75,169,335	19,320,993
Provision for uncollectible accounts		(2,795,354)	(937,980)
	33	72,373,981	18,383,013
Contract asset	27	24,164,280	17,711,560
Income tax paid in advance		0	3,920,799
Total current assets		116,006,887	66,717,429
Total assets		951,356,254	821,062,364
Debtors balance on accounts of deferral regulated activities	19	23,378,257	37,967,503
Total assets and balances of deferred accounts of regulated activities		974,734,511	859,029,867

The notes on pages 10 to 69 are an integral part of the financial statements.

<u>Equity and Liabilities</u>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Equity			
52,000,000 authorized shares of common stock; no par value.			
Issued and Outstanding	21	124,871,973	124,871,973
Capital Contribution	21	68,667,484	68,667,484
Retained earnings		134,721,148	123,090,634
Complimentary Dividend Tax		(4,977,708)	(4,776,715)
Total equity		323,282,897	311,853,376
Non current liabilities			
Loans and borrowings	20, 22	483,932,040	38,407,857
Provision for seniority premium		2,134,740	1,712,760
Provision for litigations	23	1,725,761	4,644,986
Tariff rate return payable	24	40,528,853	38,887,355
Withholdings to contractos	12	2,113,215	2,139,438
Total of Non current liabilities		530,434,609	85,792,396
Current liabilities			
Loans and borrowings	20, 22	8,423,248	100,585,596
Interest payable		2,441,811	5,269,965
Total loans payable		10,865,059	105,855,561
Accounts Payable:			
Suppliers	25	75,930,663	61,002,226
Energy distributors	20	2,680,698	5,820,748
Energy Generators	20	13,207,019	4,329,642
Others		1,368,142	511,232
Third line of transmission	26	0	275,830,816
Total accounts payable		93,186,522	347,494,664
Withholdings to contractos	12	1,172,248	3,682,270
Accrued Expenses payable and other liabilities		6,740,509	4,351,600
Income tax payable		388,696	0
Total current liabilities		112,353,034	461,384,095
Total liabilities		642,787,643	547,176,491
Commitments and contingencies	34		
Total equity and liabilities		966,070,540	859,029,867
Creditors balance on accounts of deferral regulated activities	19	8,663,971	0
Total equity, liabilities and creditors balances payable from deferral accounts of regulated activities		974,734,511	859,029,867

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 year ended December 31, 2018, 2017 and 2016

(Figures in balboas)

	<u>Nota</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenue from operations				
Transmission of energy	20	108,304,009	84,459,426	47,223,752
Connection	20	5,017,107	7,437,563	6,727,447
Integrated operation	20	12,285,864	14,718,765	12,880,051
Total revenue from operations	27	<u>125,606,980</u>	<u>106,615,754</u>	<u>66,831,250</u>
Other income	20, 28	5,636,601	2,884,676	2,627,095
Transmission of energy cost	20, 29, 30	(30,337,887)	(56,998,467)	(26,429,199)
Connection cost	29, 30	(146,514)	(127,344)	(163,979)
Integrated operation cost	29, 30	(7,401,557)	(6,199,226)	(6,428,381)
Impairment on trade receivables	33	1,849	0	(829,336)
Depreciation and amortization	11	(28,886,255)	(23,445,943)	(15,188,579)
Amortization of rights of way	13	(2,689,002)	(1,480,406)	(749,497)
General and administrative expenses	29, 30	(10,685,643)	(11,016,304)	(12,775,686)
Operating income		<u>51,098,572</u>	<u>10,232,740</u>	<u>6,893,688</u>
Finance costs, net	31	(20,044,895)	(7,440,169)	(3,640,109)
Participation in the gain on investments in associated	9	1,803,613	781,221	861,605
Participation in the loss investment in joint venture	10	(180,163)	(187,575)	(331,171)
Profit before income tax		<u>32,677,127</u>	<u>3,386,217</u>	<u>3,784,013</u>
Income tax				
Current		(4,309,495)	852,581	(1,405,464)
Deferred		328,059	(3,616,972)	(39,081)
Total income tax	32	<u>(3,981,436)</u>	<u>(2,764,391)</u>	<u>(1,444,545)</u>
Net profit before the movement of net balances in the regulatory deferral activities accounts		28,695,691	621,826	2,339,468
Net movement in balance of regulatory deferred activities accounts	19	(15,763,720)	0	0
Net profit after the movement of net balances in the regulatory deferral activities accounts		<u>12,931,971</u>	<u>621,826</u>	<u>2,339,468</u>
Net profit per share before the movement of net balances in the regulatory deferral activities accounts		<u>0.55</u>	<u>0.01</u>	<u>0.04</u>
Net profit per share after the movement of net balances in the regulatory deferral activities accounts		<u>0.25</u>	<u>0.01</u>	<u>0.04</u>

The notes on pages 10 to 69 are an integral part of the financial statements.

EMPRESA DE TRANSMISION ELECTRICA, S. A. (ETESA)

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

(Panama, Republic of Panama)

Statement of Changes in Equity

For the year ended December 31, 2018, 2017 and 2016

(Figures in balboas)

	<u>Note</u>	<u>Capital</u>	<u>Contribution of Capital</u>	<u>Retained Earnings</u>	<u>Complimentary Dividend tax</u>	<u>Total of Equity</u>
Balance as at January 1, 2016		124,871,973	39,840,960	124,129,340	(4,645,532)	284,196,741
Total comprehensive Income						
Net profit		0	0	2,339,468	0	2,339,468
Total of comprehensive Income		0	0	2,339,468	0	2,339,468
Contributions and distributions of the Shareholder						
Compimentary tax		0	0	0	(131,183)	(131,183)
Dividend declared		0	0	(4,000,000)	0	(4,000,000)
Total contributions and distributions to the Shareholder		0	0	(4,000,000)	(131,183)	(4,131,183)
Balance at December 31, 2016		124,871,973	39,840,960	122,468,808	(4,776,715)	282,405,026
Balance as at January 1, 2017		124,871,973	39,840,960	122,468,808	(4,776,715)	282,405,026
Total comprehensive Income						
Net profit		0	0	621,826	0	621,826
Total of comprehensive Income		0	0	621,826	0	621,826
Contributions and distributions of the Shareholder						
Contribution of the shareholder	21	0	28,826,524	0	0	28,826,524
Total contributions and distributions to the Shareholder		0	28,826,524	0	0	28,826,524
Balance at December 31, 2017		124,871,973	68,667,484	123,090,634	(4,776,715)	311,853,376
Balance as at January 1, 2018		124,871,973	68,667,484	123,090,634	(4,776,715)	311,853,376
Adjustment on initial application of the new standards IFRS	7	0	0	(1,301,457)	0	(1,301,457)
Balance reexpressed as of January 1, 2018		124,871,973	68,667,484	121,789,177	(4,776,715)	310,551,919
Total comprehensive Income						
Net profit		0	0	12,931,971	0	12,931,971
Total of comprehensive income		0	0	12,931,971	0	12,931,971
Contributions and distributions of the Shareholder						
Compimentary tax	21	0	0	0	(200,993)	(200,993)
Total contributions and distributions to the Shareholder		0	0	0	(200,993)	(200,993)
Balance at December 31, 2018		124,871,973	68,667,484	134,721,148	(4,977,708)	323,282,897

The notes on pages 10 to 69 are an integral part of the financial statements.

EMPRESA DE TRANSMISION ELECTRICA, S. A. (ETESA)

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

(Panama, Republic of Panama)

Statement of cash flows

For the year ended December 31, 2018, 2017 and 2016

(Figures in balboas)

	<u>Note</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities				
Net Profit		12,931,971	621,826	2,339,468
Adjustment for :				
Depreciation, property, plant, and equipment	11	28,886,255	23,445,943	15,188,579
Amortization of right of way	13	2,689,002	1,480,406	749,497
Provision for uncollectible accounts	33	(1,849)	0	829,336
(Reversal) provision for obsolescence of inventories		0	(197,633)	682,104
Net loss (gain) sale of fixed assets	28	(4,573,712)	19,347	(18,764)
Participation in the gain of investment in associates	9	(1,803,613)	(781,221)	(861,605)
Participation in the loss of joint venture	10	180,163	187,575	331,171
(Reversal) provision for litigation & commitments		2,401,289	(1,685,371)	2,170,866
Provision for tariff rate return	24	781,611	13,899,200	11,474,114
Finance costs, net		20,044,895	7,440,169	3,640,109
Effect of discounting the deferred regulated activities accounts	19	(1,221,024)	2,032,497	0
(Income) tax expenditure on the current income	32	4,309,495	(852,581)	1,405,464
Expenditure of deferred income tax		(328,059)	3,616,972	39,081
		<u>64,296,424</u>	<u>49,227,129</u>	<u>37,969,420</u>
Changes in:				
Accounts receivable		(61,954,906)	(133,024)	(1,915,777)
Other assets		(6,370,135)	6,054,553	(2,352,055)
Accounts payable		24,699,389	30,321,851	10,878,304
Other liabilities		(3,581,311)	(1,849,682)	1,334,524
Provision for seniority premium payment		421,980	(442,039)	114,560
Cash generated form operating activities		<u>17,511,441</u>	<u>83,178,788</u>	<u>46,028,976</u>
Income tax paid		0	0	(5,014,695)
Interest paid		(25,089,515)	(2,278,602)	(4,409,521)
Net cash provided by operating activities		<u>(7,578,074)</u>	<u>80,900,186</u>	<u>36,604,760</u>
Cash flows from investing activities				
Interest received		248,199	210,187	233,996
Changes in the severance fund		(225,966)	(267,729)	655,350
Dividends received from associates		812,394	715,000	714,970
Acquisition of fixed assets	12	(64,156,254)	(490,975)	(2,814,911)
Proceeds from the sale of fixed assets		5,000,000	0	19,119
Payments for construction in process	13	(19,451,872)	(53,449,707)	(64,200,100)
Rights of way adquisition		(24,627,741)	0	0
Net cash used in investing activities		<u>(102,401,240)</u>	<u>(53,283,224)</u>	<u>(65,391,576)</u>
Cash flows from financing activities				
Capital contributions		0	13,766,503	0
Complimentary dividend tax		0	0	(131,183)
Payment for the third line of transmission	12	(275,830,816)	0	0
Change in restricted cash		550,000	0	0
Loans received		452,669,977	49,324,092	43,387,685
Loans Payment		(99,308,142)	(34,544,597)	(9,675,938)
Net cash provided by financing activities		<u>78,081,019</u>	<u>28,545,998</u>	<u>33,580,564</u>
Cash used in the regulatory deferred accounts		25,214,863	(40,000,000)	0
Net increase in cash		(6,683,432)	16,162,960	4,138,398
Cash at the beginning of the year		<u>26,152,057</u>	<u>9,989,097</u>	<u>5,850,699</u>
Cash at the end of the year		<u><u>19,468,626</u></u>	<u><u>26,152,057</u></u>	<u><u>9,989,097</u></u>

The notes on pages 10 to 69 are an integral part of the financial statements.

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(Figures en Balboas)

(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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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.

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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:

	<u>Estimated Year of Life</u>
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 Controllershship. 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>
Financial Assets					
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>
Total Financial Assets				<u>45,085,070</u>	<u>43,225,847</u>
Financial Liabilities					
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>
Total Financial Liabilities				<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 December, 2017	Remeasurement	Amount in Books under IFRS 9 as of 1st January, 2018
Financial Assets			
Amortized Cost			
Cash			
Initial balance before: Loans and other accounts receivable	26,702,057		
Remeasurement		(1)	
Initial Balance: Amortized Cost			26,702,056
Trade Receivables and other accounts receivables			
Balance before: Loans and other related receivables	18,383,013		
Remeasurement		(1,859,223)	
Initial Balance: Amortized Cost			16,523,790
Total Amortized cost	45,085,070	(1,859,224)	43,225,846

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
Provision for Losses as of 1st January 2018 under IFRS 9	1,859,224

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.

	Reportable segments				Total
	Transmission of electricity / Connection	National Dispatch Center (Centro Nacional de Despacho)	Hydrometeorology Division	Others	
December 31, 2018					
Income of the segment to be disclosed	113,321,116	7,818,318	4,467,546	-	125,606,980
Profit before taxes to be disclosed	29,480,913	3,108,212	1,776,095	-	32,677,127
Profit before taxes to be disclosed, net of movement in balance of regulatory deferred accounts	13,717,193	3,108,212	1,776,095	-	16,913,407
Financial cost, net	20,044,895	-	-	-	20,044,895
Depreciation and amortization	(28,535,168)	(1,930,723)	(469,155)	(640,210)	(31,575,256)
Participation in the gain on investments in associated companies by the method of participation	-	-	-	1,623,450	1,623,450
Income tax, net	(3,592,004)	(247,822)	(141,610)	-	(3,981,436)
Assets of the segment to be disclosed	937,444,084	6,250,779	9,653,910	17,573,765	974,374,511
Investment by the method of participation in associated companies and joint ventures	-	-	-	17,573,765	17,573,765
Liabilities of the segment to be disclosed	637,813,636	2,376,449	2,597,554	-	642,787,639

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	Reportable segments				Total
	Transmission of electricity / Connection	National Dispatch Center (Centro Nacional de Despacho)	Hydrometeorology Division	Others	
December 31, 2017					
Income of the segment to be disclosed	94,471,120	8,144,230	6,610,304	274,776	109,500,430
Profit before taxes to be disclosed	(2,221,766)	363,578	4,340,214	904,189	3,386,215
Financial cost, net	7,440,169	-	-	-	7,440,169
Depreciation and amortization	(21,074,834)	(3,687,591)	(163,924)	-	(24,926,349)
Participation in the gain on investments in associated companies by the method of participation				593,646	593,646
Income tax, net	(2,384,969)	(205,605)	(166,880)	(6,937)	(2,764,391)
Assets of the segment to be disclosed	835,638,481	3,167,011	3,461,666	16,762,709	859,029,867
Investment by the method of participation in associated companies and joint ventures	-	-	-	16,762,709	16,762,709
Liabilities of the segment to be disclosed	542,942,344	2,022,966	2,211,181	-	547,176,491
	Reportable segments				Total
	Transmission of electricity / Connection	National Dispatch Center (Centro Nacional de Despacho)	Hydrometeorology Division	Others	
December 31, 2016					
Income of the segment to be disclosed	56,305,729	7,296,141	5,583,910	272,565	69,458,345
Profit before taxes to be disclosed	(2,901,986)	2,696,619	3,249,529	739,851	3,784,013
Financial cost, net	(3,788,257)	0	0	148,147	(3,640,110)
Depreciation and amortization	(15,342,554)	(329,746)	(175,776)	(90,000)	(15,938,076)
Participation in the gain on investments in associated companies by the method of participation	0	0	0	530,434	530,434
Income tax, net	0	(495,571)	(596,583)	(352,391)	(1,444,545)
Assets of the segment to be disclosed	479,457,404	7,587,755	6,572,684	17,419,589	511,037,432
Investment by the method of participation in associated companies and joint ventures	0	0	0	16,883,632	16,883,632
Liabilities of the segment to be disclosed	224,887,277	2,470,553	1,223,451	51,125	228,632,406

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Notes to the Financial Statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 (Figures in Balboas)**(9) Interests in equity accounted investments**

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

	December 31	
	2018	2017
Empresa Propietaria de la Red, S. A.	15,001,964	14,021,678
Red Centroamericana de Telecomunicaciones S. A.	54,202	173,436
	<u>15,056,166</u>	<u>14,195,114</u>

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

	December 31		
	2018	2017	2016
Empresa Propietaria de la Red, S. A.	1,923,677	767,022	861,638
Red Centroamericana de Telecomunicaciones, S. A.	<u>(120,064)</u>	<u>14,199</u>	<u>(33)</u>
	<u>1,803,613</u>	<u>781,221</u>	<u>861,605</u>

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

a) Empresa Propietaria de la Red, S. A.	December 31	
	2018	2017
Capital in common shares	<u>6,500,000</u>	<u>6,500,000</u>
Percentage of participation	11.11%	11.11%
Non-current assets	382,108,027	411,042,783
Current Assets	63,616,661	46,689,834
Noncurrent Liabilities	(268,167,214)	(288,303,009)
Current Liabilities	<u>(42,526,300)</u>	<u>(43,221,881)</u>
Net Assets (100%)	<u>135,031,174</u>	<u>126,207,727</u>
Recorded in Books: Participation of ETESA		
In the Net Assets (11.11%)	<u>15,001,964</u>	<u>14,021,678</u>
Income	67,164,867	59,568,610
Expenses of ordinary activities (100%)	(41,280,828)	(36,031,717)
Financial Costs	<u>(8,569,216)</u>	<u>(16,633,009)</u>
Comprehensive income of the period (100%)	<u>17,314,823</u>	<u>6,903,884</u>
Amount in Books: Participation of ETESA		
In comprehensive income (11.11%)	<u>1,923,677</u>	<u>767,022</u>
Movement of Participation in associates:		
Beginning Balance of the year	7,521,678	7,550,295
Participation in the profit	1,923,677	767,022
Dividends received	(812,500)	(715,000)
Other charges to the participation	<u>(130,891)</u>	<u>(80,639)</u>
Final Balance at the end of the year	8,501,964	7,521,678
Capital in Shares	<u>6,500,000</u>	<u>6,500,000</u>
	<u>15,001,964</u>	<u>14,021,678</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/.131,617 (2017: B/.113,083).

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

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b) <u>Red Centroamericana de Telecomunicaciones, S. A.</u>	December 31	
	2018	2017
Capital in common shares	<u>300,000</u>	<u>300,000</u>
Percentage in participation	<u>11.11%</u>	<u>11.11%</u>
Non-current assets	13,857,290	12,824,790
Current assets	2,321,170	4,190,327
Non-current Liabilities	(14,141,739)	(13,790,000)
Current Liabilities	<u>(1,548,850)</u>	<u>(1,664,040)</u>
Net Assets (100%)	<u>487,871</u>	<u>1,561,077</u>
Recorded in books: Participation of ETESA in net assets (11.11%)	<u>54,202</u>	<u>173,436</u>
Income	2,328,064	3,279,168
Expenses of ordinary activities (100%)	(2,227,116)	(1,855,493)
Financial costs	<u>(1,181,628)</u>	<u>(1,295,875)</u>
income of the period (100%)	<u>(1,080,680)</u>	<u>127,800</u>
Amount in books: Participation of ETESA In comprehensive income (11.11%)	<u>(120,064)</u>	<u>14,199</u>
Movement of Participation in associates:		
Beginning balance of the year	(126,564)	(140,763)
Other charges in the participation	831	-
Dividends in the profit	<u>(120,064)</u>	<u>14,199</u>
Balance at the end of the year	<u>(245,798)</u>	<u>(126,564)</u>
Capital in shares	<u>300,000</u>	<u>300,000</u>
	<u>54,202</u>	<u>173,436</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 2nd 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 Río 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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(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 December 31, 2018, 2017 and 2016 (Figures in Balboas)

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:

	December 31	
	<u>2018</u>	<u>2017</u>
a) Interconexión Eléctrica Colombia-Panamá, S. A.		
Capital in common shares	<u>8,187,000</u>	<u>8,187,000</u>
Percentage of participation	<u>50%</u>	<u>50%</u>
Current assets (including cash and cash equivalents		
Cash.	5,036,328	5,206,860
Liabilities (including financial liabilities non		
current and excluded from accounts payable and		
other accounts payable)	(142)	(70,094)
Non-current liabilities (including non-current financial liabilities		
and excluded accounts payable and other payables.	<u>(987)</u>	<u>(1,576)</u>
Net Assets (100%)	<u>5,035,199</u>	<u>5,135,190</u>
Amount in Books: Participation of ETESA in		
net assets (50%).	<u>2,517,599</u>	<u>2,567,595</u>
Other Income	84,442	71,078
Cost of ordinary activities (100%)	(444,769)	(446,228)
Comprehensive Income of the period (100%)	<u>(360,327)</u>	<u>(375,150)</u>
Amount in books: Participation of ETESA in the		
Results (50%).	<u>(180,164)</u>	<u>(187,575)</u>
Movement of the participation in Joint Ventures:		
Balance at beginning of year	(5,619,406)	(5,512,900)
Participation in the net profit	(46,356)	(106,506)
Other charges to the participation	<u>(3,639)</u>	<u>-</u>
Balance at the end of the year	<u>(5,669,401)</u>	<u>(5,619,406)</u>
Share Capital	<u>8,187,000</u>	<u>8,187,000</u>
Investment	<u>2,517,599</u>	<u>2,567,595</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 1st January 2018</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Capitalizations and reclassification</u>	<u>As of 31st December 2018</u>
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	-	-	211,440,398
Air conductors and tower accessories	222,912,462	830,917	-	73,797,603	297,540,982
Building and Improvement	25,408,299	-	-	372,230	25,780,529
Communication equipment	24,368,428	458,387	-	-	24,826,815
Furniture equipment and other office Eqp	3,674,520	318,914	(25,397)	-	3,968,037
Land & right of way	5,843,930	-	(9,547)	-	5,834,383
Transportation Equipment	6,071,319	837,042	-	(855)	6,907,506
Hydrometeorology assets	6,321,503	-	-	3,235,267	9,556,770
Transformers	63,642,390	449,588	-	-	64,091,978
Roads & Bridges	982,308	6,393	-	-	988,701
Computer Equipment	29,294,445	2,564,270	(25,887,595)	855	5,971,975
Laboratory equipment	1,286,786	-	-	-	1,286,786
Protection eqp control & measurement	26,382,285	737,245	(202,222)	-	26,917,308
Auxiliary equipment	8,820,643	176,850	-	-	8,997,492
Miscellaneous electrical equipment	1,262,213	111,106	-	-	1,373,319
Mechanical equipment	348,642	-	-	-	348,642
Special tools	1,839,005	-	(1,189,484)	-	649,521
Donated Assets	7,771	-	-	-	7,771
Tower Equipment's-ACP/STP	594,895	-	-	-	594,895
Conductor equipment & others -ACP/STP	504,105	-	-	-	504,105
Strategical STP sub station equipment's	35,199,120	-	-	-	35,199,120
Strategical CNX sub station equipment's	266,716	-	-	-	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>

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

Cost

	<u>As of 1st January 2017</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Capitalizations and reclassification</u>	<u>As of 31st December 2017</u>
Elevating Sub Station Towers	91,665,491	22,218,856	-	-	113,884,347
Towers and accessories	99,267,232	103,131,666	-	8,308,060	210,706,958
Air conductors and tower accessories	97,595,736	107,410,885	-	17,905,844	222,912,462
Building and Improvement	25,163,339	-	-	244,960	25,408,299
Communication equipment	21,098,695	3,269,733	-	-	24,368,428
Furniture equipment and other office Eqp	3,512,121	35,487	(28,327)	155,238	3,674,520
Land & right of way	5,863,103	-	(19,173)	-	5,843,930
Transportation Equipment	5,214,263	857,056	-	-	6,071,319
Hydrometeorology assets	6,321,503	-	-	-	6,321,503
Transformers	58,755,982	4,886,407	-	-	63,642,390
Roads & Bridges	758,817	223,491	-	-	982,308
Computer Equipment	22,599,406	1,832,236	(430,320)	5,293,122	29,294,445
Laboratory equipment	1,286,786	-	-	-	1,286,786
Protection eqp control & measurement	19,209,350	7,006,517	-	166,417	26,382,285
Auxiliary equipment	7,296,497	1,524,146	-	-	8,820,643
Miscellaneous electrical equipment	-	79,056	-	112,564	-
	1,071,342	-	(750)	-	1,262,213
Mechanical equipment	348,642	-	-	-	348,642
Special tools	1,828,909	10,095	-	-	1,839,005
Donated Assets	7,771	-	-	-	7,771
Tower Equipment's-ACP/STP	1,918,332	-	-	(1,323,437)	594,895
Conductor equipment & others -ACP/STP	504,105	-	-	-	504,105
Strategical STP sub station equipment's	35,199,120	-	-	-	35,199,120
Strategical CNX sub station equipment's	266,716	-	-	-	266,716
Net Balance	<u>506,753,258</u>	<u>252,485,631</u>	<u>(478,570)</u>	<u>30,862,768</u>	<u>789,623,090</u>

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<u>Depreciation y amortization</u>	<u>As of 1st January 2017</u>	<u>Increase</u>	<u>Disposals</u>	<u>Reclassification</u>	<u>As of 1st December 2017</u>
Elevating Sub Station Towers	35,729,566	2,998,591	-	-	38,728,157
Towers and accessories	47,878,742	3,833,409	-	49,153	51,761,304
Air conductors and tower accessories	46,170,526	3,930,693	-	-	50,101,219
Building and Improvement	16,394,832	732,945	-	-	17,127,777
-Communication equipment	14,033,448	1,357,601	-	-	15,391,049
Furniture equipment and other office Eqp	3,085,262	131,094	(28,153)	-	3,188,203
Transportation Equipment	4,215,258	590,998	-	-	4,806,256
Hydrometeorology assets	2,795,330	131,916	-	-	2,927,246
Transformers	28,166,230	1,621,280	-	-	29,787,511
Roads & Bridges	177,170	27,534	-	-	204,704
Computer Equipment	20,603,329	4,796,117	(430,320)	-	24,969,126
Laboratory equipment	1,285,540	748	-	-	1,286,288
Protection eqp control & measurement	15,040,960	1,089,350	-	-	16,130,310
Auxiliary equipment	3,834,743	234,871	-	-	4,069,614
Miscellaneous electrical equipment	696,478	120,700	(750)	-	816,428
Mechanical equipment	76,325	34,297	-	-	110,622
Special tools	1,634,507	22,491	-	-	1,656,998
Donated Assets	2,017	222	-	-	2,239
Tower Equipment's-ACP/STP	129,489	37,403	-	(49,153)	117,739
Conductor equipment & others -ACP/STP	99,621	14,403	-	-	114,024
Strategical STP sub station equipment's	1,032,951	1,730,389	-	-	2,763,340
Strategical CNX sub station equipment's	5,927	8,891	-	-	14,818
Net Balance	<u>243,088,252</u>	<u>23,445,943</u>	<u>(459,223)</u>	<u>-</u>	<u>266,074,972</u>
	<u>263,665,008</u>				<u>523,548,117</u>

During the period 2017, ETESA capitalized B/.251,994,656 as a result of the delivery of a turnkey project, the Third Electric Transmission line, plus the amount corresponding to the right of way of B/.42,949,858 (note 13) (all such amounts paid in 2018).

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 2017</u>	<u>Additions</u>	<u>Capitalization</u>	<u>Balance 2018</u>
Main Transmission System	99,884,715	82,325,798	(71,964,937)	110,245,577
Right of way	2,190,048	2,857,434	-	5,047,482
Connection System	2,717,164	321,312	(160,540)	2,877,936
National Dispatch Center	1,662,482	3,085,293	-	4,747,775
Hydrometeorology	3,575,863	3,077,546	(3,235,267)	3,418,142
Management team support	1,839,351	-	(372,230)	1,467,121
Compensation	511,850	4,189,245	(3,848,502)	852,593
Regional Investments	1,642,234	-	-	1,642,234
	<u>114,023,707</u>	<u>95,856,628</u>	<u>(79,581,476)</u>	<u>130,298,859</u>

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	<u>Balance 2016</u>	<u>Additions</u>	<u>Capitalization</u>	<u>Balance 2017</u>
Projects:				
Main Transmission System	81,807,125	40,154,126	(22,076,536)	99,884,715
Right of way	40,188,434	4,951,472	(42,949,858)	2,190,048
Connection System	2,281,505	602,076	(166,417)	2,717,164
National Dispatch Center	6,464,887	1,003,479	(5,805,884)	1,662,482
Hydrometeorology	2,778,168	797,695	-	3,575,863
Management team support	1,217,928	621,423	-	1,839,351
Compensation	628,265	2,697,516	(2,813,931)	511,850
Regional Investments	<u>1,642,234</u>	<u>-</u>	<u>-</u>	<u>1,642,234</u>
	<u>137,008,546</u>	<u>50,827,787</u>	<u>(73,812,626)</u>	<u>114,023,707</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 31 December 2018 and 2017 payments made associated to constructions in process are detailed below:

	<u>December 31 2018</u>	<u>2017</u>
Purchases made during the year	13,952,879	42,681,132
Payment of right of way	527,711	8,608,096
Withholdings to contractors	<u>4,971,282</u>	<u>2,160,479</u>
	<u>19,451,872</u>	<u>53,449,707</u>

Withholdings to contractors

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

<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>
<u>December 31, 2017</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>6,377,234</u>	<u>1,377,077</u>	<u>(2,160,479)</u>	<u>227,876</u>	<u>5,821,708</u>	<u>3,682,270</u>	<u>2,139,438</u>

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The right of way, net is detailed as follows:

	December 31	
	<u>2018</u>	<u>2017</u>
<u>Cost</u>		
Beginning Balance	93,018,403	26,232,385
Additions	791,580	23,836,160
Reclassifications (Note 11, 12)	0	42,949,858
Ending Balance	<u>93,809,983</u>	<u>93,018,403</u>
<u>Amortization</u>		
Beginning Balance	7,776,125	6,295,719
Additions	<u>2,689,002</u>	<u>1,480,406</u>
Reclassifications (Note 11, 12)	<u>10,465,127</u>	<u>7,776,125</u>
Ending Balance	<u>83,344,856</u>	<u>85,242,278</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:

	December 31	
	<u>2018</u>	<u>2017</u>
Inventory of materials, parts and minor equipment	5,244,944	5,537,376
Less: Provision for inventory obsolescence	<u>(1,038,512)</u>	<u>(1,888,698)</u>
	<u>4,206,432</u>	<u>3,648,678</u>

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

	December 31	
	<u>2018</u>	<u>2017</u>
Balance at the beginning of the year	1,888,698	2,086,331
Provision used	<u>(850,186)</u>	<u>(197,633)</u>
Balance at the end of the year	<u>1,038,512</u>	<u>1,888,698</u>

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The advance to contractors relates to the following suppliers:

	December 31	
	2018	2017
Celmec, S. A.	3,431,342	1,019,188
Elecnor, S.A.	2,483,569	-
Nacional de Seguros de Panamá y Centroamerica, S. A.	1,985,835	2,049,499
Cobra Instalaciones y Servicios, S. A.	855,395	-
Ingelmec, S. A.	672,506	151,835
Energía Integral Andina, S. A	287,601	501,728
Proyecto y Construcciones Canaima	161,046	198,046
Vimac, S. A.	56,155	56,155
Argencobra, S. A.	16,980	19,535
Global Elite Corp	-	141,882
	<u>9,950,429</u>	<u>4,137,865</u>

(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 (2017: 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:

	December 31	
	2018	2017
Petty Cash	47,800	24,034
Bank current accounts	<u>19,420,826</u>	<u>26,678,023</u>
Total cash	<u>19,468,626</u>	<u>26,702,057</u>
Restricted Cash (note 22)	-	<u>(550,000)</u>
Cash	<u>19,468,626</u>	<u>26,152,057</u>

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

	December 31	
	2018	2017
AES Changuinola S De R.L.	172,185	652,195
Electron Investment, S. A.	-	224,677
Ideal Panamá, S. A.	-	34,208
Alternegy	213,899	-
Bahia LAS MINAS, S.A.	193,302	-
Pedregal Power	180,750	-
Jinro Corp	102,135	-
Others	<u>311,828</u>	<u>116,206</u>
	<u>1,174,099</u>	<u>1,027,284</u>

(19) Regulatory deferral account balances

In 2017, ETESA recognized regulatory deferral account balances on regulated activities amounting to B/. 37,967,503, 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% (2017: 2.56%).

As of December 31, 2018, ETESA recognized a liability for regulatory account balances for the amount of B/. 8,663,971 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:

	December 31	
	2018	2017
Beginning Balance	37,967,503	-
Payments made during the year	-	40,000,000
Discharge made in the year	(15,763,720)	-
Adjustment of present value	<u>1,174,474</u>	<u>(2,032,497)</u>
Balance	<u>23,378,257</u>	<u>37,967,503</u>

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

	December 31 2018
Beginning Balance	-
Charges received during the year	8,126,071
Interest recognized	<u>537,900</u>
Balance	<u>8,663,971</u>

(20) Balances and transactions with related parties

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

a) The Balances are:

	December 31 2018	2017
<u>Investment in Associates (note 8):</u>		
Empresa Propietaria de la Red, S. A.	15,001,964	14,021,678
Red Centroamericana de Telecomunicaciones, S. A.	<u>54,202</u>	<u>173,436</u>
	<u>15,056,166</u>	<u>14,195,114</u>
<u>Investment in Joint ventures (note 9):</u>		
Interconexión Eléctrica Colombia-Panamá, S. A.	<u>2,517,599</u>	<u>2,567,595</u>
<u>Loans Receivable – Associates (note 8):</u>		
Empresa Propietaria de la Red, S. A.	<u>2,596,154</u>	<u>2,942,308</u>
<u>Accounts Receivable and contract assets:</u>		
Energy distribution companies:		
Empresa de Distribución Eléctrica Metro Oeste, S. A.	22,536,331	2,276,755
Empresa de Distribución Eléctrica de Chiriquí, S. A.	3,938,839	599,082
Elektra Noreste, S. A.	<u>26,227,430</u>	<u>4,619,042</u>
	<u>52,702,600</u>	<u>7,494,879</u>
Energy generating companies:		
Aes Changuinola S.DE R.L	1,692,764	2,860,658
Aes Panamá, S.DE.R.L	2,824,334	4,023,883
Bahía las Minas Corp.	460,170	760,462
Enel Fortuna, S. A.	<u>1,292,537</u>	<u>3,304,827</u>
	<u>6,269,805</u>	<u>10,949,830</u>
Government entities:		
Oficina de Electrificación Rural	<u>588,464</u>	<u>588,464</u>
Other market agents :		
AES Changuinola, S. A.	-	652,195
AES Panamá, S. A.	71,710	-
Empresa Nacional de Energía, S. A.	2,830	219
Energía y Servicios de Panamá, S. A.	<u>434,073</u>	-
	<u>508,613</u>	<u>652,414</u>
Cash		
Banco Nacional de Panamá	<u>6,344,505</u>	<u>22,987,690</u>

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	December 31	
	2018	2017
<u>Loans Payable</u>		
Caja de Ahorros	23,744,510	26,281,676
Banco Nacional de Panamá	-	50,000,000
<u>Accounts Payable</u>		
Energy distribution companies:		
Empresa de Distribución Eléctrica de Chiriquí, S. A.	338,000	261,147
Empresa de Distribución Eléctrica Metro Oeste, S. A.	842,343	971,066
Elektra Noreste, S. A.	<u>1,838,017</u>	<u>33,151</u>
	<u>3,018,360</u>	<u>1,265,364</u>
Energy generating companies:		
AES Panamá, S. A.	344,427	1,051,862
Autoridad del Canal de Panamá (ACP)	77,959	1,042,254
Empresa de Generación Enel Fortuna, S.A.	434,795	299,267
Elektra Noreste S.A	3,567,053	251,005
AES Changuinola, S. A.	489,555	245,018
Empresa de Distribución Eléctrica Metro Oeste, S. A.	3,696,856	196,457
Empresa de Distribución Eléctrica de Chiriquí, S. A.	157,506.00	46,661
Bahía las Minas Corp.	14,809	42,419
Energía y Servicios de Panamá, S. A.	50,328	15,751
Others	<u>2,605,372</u>	<u>1,138,948</u>
	<u>11,438,660</u>	<u>4,329,642</u>

b) Transactions are as follows:

	December 31		
	2018	2017	2016
<u>Income:</u>			
Transmission of energy	86,814,045	57,408,862	51,257,171
Connections	4,724,787	5,786,615	5,421,464
Integrated operations	<u>8,572,753</u>	<u>9,613,963</u>	<u>8,148,592</u>
	<u>100,111,585</u>	<u>72,809,440</u>	<u>64,827,227</u>
Other Income	<u>4,837,584</u>	<u>64,723</u>	<u>19,120</u>
Cost and Expenses	<u>131,405</u>	<u>1,522</u>	<u>-</u>
Interest paid for Loans	<u>131,617</u>	<u>113,083</u>	<u>111,303</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 B/.2,703,319 (2017: B/.2,615,491; B/.2,191,242 for 2016).

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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:

	December 31	
	2018	2017
<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 06 October 2018 and 31 August 2018.	-	30,000,000
Term Loan of B/.20,000,000 fixed annual interest rate of 4.5%, with maturity on 23 November 2018.	-	20,000,000
<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	720,541	950,011
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.	23,023,969	25,331,665
<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.	71,341,989	15,940,801
<u>The Bank of Nova Scotia, S. A.:</u>		
Syndicated loan with an annual interest rate of Libor of 3M + 3.50% deducted quarterly of the loan, payable at maturity in September of 2017, with an extension to September 7, 2018.	-	46,770,976
<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.	400,000,000	-
Commissions	(2,731,210)	-
Sub-total	492,355,288	138,993,453
Less current portion	8,423,248	100,585,596
Total loans payable with maturities - non current	483,932,040	38,407,857

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

- 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 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

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- 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.

(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:

	December 31	
	2018	2017
Lawsuits filed for alleged damages	1,725,761	1,804,216
Provision for the eventual return of interest in arrears to CELMEC, S. A.	-	2,840,770
	<u>1,725,761</u>	<u>4,644,986</u>

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

	December 31, 2018				
	Beginning Balance	Increase	Reversals	Payments	Ending balance
Alleged legal damages	1,804,216	-	(78,455)	-	1,725,761
Interests 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>

	December 31, 2017				
	Beginning Balance	Increase	Reversals	Payments	Ending Balance
Alleged Legal damages	4,047,119	-	(1,956,760)	(286,143)	1,804,216
Indemnity for right of way	8,608,096	-	-	(8,608,096)	-
Interest in arrears	<u>2,569,381</u>	<u>271,389</u>	<u>-</u>	<u>-</u>	<u>2,840,770</u>
	<u>11,177,477</u>	<u>271,389</u>	<u>-</u>	<u>(8,608,096)</u>	<u>-</u>
	<u>15,224,596</u>	<u>271,389</u>	<u>(1,956,760)</u>	<u>(8,894,239)</u>	<u>4,644,986</u>

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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).

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:

	December 31	
	<u>2018</u>	<u>2017</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	2,149,716	1,289,829
Estimate of the tariff return for period 4 comprising of 1 July 2016 to 30 June 2017	<u>21,181,406</u>	<u>20,399,795</u>
	<u>40,528,853</u>	<u>38,887,355</u>

The movement of tariff rate return is as follows:

	December 31, 2018		
	<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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	<u>December 31, 2017</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	520,298	769,531	1,289,829
Estimated tariff period 4	<u>6,500,595</u>	<u>13,899,200</u>	<u>20,399,795</u>
	<u>24,218,624</u>	<u>14,668,731</u>	<u>38,887,355</u>

(25) Accounts payable to suppliers

The accounts payable to suppliers are as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Materials and supplies	51,303,724	27,796,242
Contracts for projects	23,912,607	30,853,071
Others	-	2,112,523
Regional Market	<u>714,332</u>	<u>240,389</u>
	<u>75,930,663</u>	<u>61,002,226</u>

(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

	<u>2018</u>	<u>December 31 2017</u>	<u>2016</u>
Transmission			
Electric tracking	34,047,827	10,752,575	14,827,544
Stamping	74,256,182	73,706,851	32,396,208
Connections	5,017,107	7,437,563	6,727,447
Integrated operations			
Centro Nacional de Despacho	7,818,318	8,297,575	7,296,141
Hydrometeorology	<u>4,467,546</u>	<u>6,421,190</u>	<u>5,583,910</u>
Ordinary income from contracts with clients	<u>125,606,980</u>	<u>106,615,754</u>	<u>66,831,250</u>

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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		
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Principal clients															
Distributors	61,674,972	49,523,597	31,524,674	6,143,911	8,297,575	7,296,141	2,040,374	6,421,190	5,583,910	0	0	0	69,859,257	64,242,362	44,404,725
Generators	46,629,037	15,947,715	19,349,189	1,172,085	0	0	1,699,020	0	0	0	0	0	49,500,142	15,947,715	19,349,189
Other Market agents	4,364,957	13,094,656	2,797,575	502,322	7,856,793	0	728,152	5,237,862	0	652,150	236,366	279,761	6,247,581	26,425,677	3,077,336
	<u>112,668,966</u>	<u>78,565,968</u>	<u>53,671,438</u>	<u>7,818,318</u>	<u>16,154,368</u>	<u>7,296,141</u>	<u>4,467,546</u>	<u>11,659,052</u>	<u>5,583,910</u>	<u>652,150</u>	<u>236,366</u>	<u>279,761</u>	<u>125,606,980</u>	<u>106,615,754</u>	<u>66,831,250</u>
Opportunity for income recognition															
Services transferred over time	107,918,106	75,681,292	53,671,438	7,286,874	16,154,368	4,669,046	4,113,250	11,659,052	5,583,910	652,150	236,366	279,761	119,970,379	103,731,078	64,204,155
Services transferred in a point of time	177,148	2,884,676	0	531,445	0	2,627,095	354,296	0	0	0	0	0	1,062,889	2,884,676	2,627,095
Revenue from ordinary activities of contracts with clients	<u>108,095,254</u>	<u>78,565,968</u>	<u>53,671,438</u>	<u>7,818,318</u>	<u>16,154,368</u>	<u>7,296,141</u>	<u>4,467,546</u>	<u>11,659,052</u>	<u>5,583,910</u>	<u>652,150</u>	<u>236,366</u>	<u>279,761</u>	<u>121,033,268</u>	<u>106,615,754</u>	<u>66,831,250</u>
Other income	4,573,712	0	0	0	0	0	0	0	0	0	0	0	4,573,712	0	0
Income reported in the segment note	<u>112,668,966</u>	<u>78,565,968</u>	<u>53,671,438</u>	<u>7,818,318</u>	<u>16,154,368</u>	<u>7,296,141</u>	<u>4,467,546</u>	<u>11,659,052</u>	<u>5,583,910</u>	<u>652,150</u>	<u>236,366</u>	<u>279,761</u>	<u>125,606,980</u>	<u>106,615,754</u>	<u>66,831,250</u>

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 ate detailed below:

	2018	2017
Beginning balance	17,711,560	0
Revenue recognized during the year included in contract assets	24,164,280	17,711,560
Transfers from contract assets recognized at the beginning of the period to receivables.	<u>(17,711,560)</u>	<u>0</u>
	<u>24,164,280</u>	<u>17,711,560</u>

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	126,919,000	137,757,000	107,479,000	372,155,000
Connections	5,714,000	9,562,000	9,872,000	25,148,000
Integrated Operations	<u>16,583,000</u>	<u>11,398,000</u>	<u>9,083,000</u>	<u>37,064,000</u>
	<u>149,216,000</u>	<u>158,717,000</u>	<u>126,434,000</u>	<u>434,367,000</u>

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The other income is detailed as follows:

	2018	December 31 2017	2016
Communication services	130,191	236,325	266,458
Profits on sale of fixed assets (land and property)	4,573,712	0	18,764
Others	<u>932,698</u>	<u>2,648,351</u>	<u>2,341,873</u>
	<u>5,636,601</u>	<u>2,884,676</u>	<u>2,627,095</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:

	2018	December 31 2017	2016
Personnel costs (note 30)	18,894,676	16,082,684	14,382,392
Compulsory generation (1)	8,669,891	43,346,296	15,394,923
Repair and Maintenance	4,361,804	1,171,552	992,287
Costs for damages caused (2)	0	4,555,384	0
Commercial and financial services	4,450,981	1,311,770	1,386,695
Non-personal services	4,489,530	2,739,058	3,281,542
Materials and supplies	1,492,751	689,613	1,376,324
Rentals	943,828	969,009	1,020,814
Basic services	1,264,022	1,066,422	1,192,610
Travel and transportation	642,967	611,084	720,087
Fuel and lubricants	215,088	146,642	190,825
Taxes, regulation and inspection fees	414,195	1,201,169	982,220
International organizations	6,375	5,000	14,300
Provision for litigation liabilities	2,401,289	268,719	1,812,380
Provision for inventory obsolescence	-	-	682,104
Others	<u>324,204</u>	<u>176,939</u>	<u>2,367,742</u>
	<u>48,571,601</u>	<u>74,341,341</u>	<u>45,797,245</u>

- (1) During the year 2018, ETESA generated the sum of B/. 8,666,891 (2017: B/. 43,346,296, 2016 15,394,923) 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.

	December 31		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Transmission of energy cost</u>			
Personnel expenses	7,635,069	4,939,097	5,936,122
Compulsory generation (1)	8,669,891	43,346,296	15,394,923
Repair and Maintenance	3,933,797	845,940	645,717
Costs for damages caused (2)	-	4,555,384	-
Commercial and financial services	2,127,848	733,973	638,248
Non-personal services	2,583,522	673,722	1,577,201
Materials and supplies	1,143,750	428,578	694,264
Rentals	419,867	416,139	467,283
Basic services	797,219	514,930	541,812
Travel and transportation	410,593	323,392	348,823
Fuel and lubricants	150,668	103,195	133,365
Provision for litigation liabilities	2,401,289	-	-
Taxes, regulation and inspection fees	491	28,222	49,052
Others	63,883	89,599	2,389
	<u>30,337,887</u>	<u>56,998,467</u>	<u>26,429,199</u>
<u>Connection cost</u>			
Personnel expenses	134,774	115,396	118,164
Others	11,740	11,948	45,815
	<u>146,514</u>	<u>127,344</u>	<u>163,979</u>
<u>Integrated operations cost</u>			
<u>Centro Nacional de Despacho</u>			
Personnel expenses	3,977,617	3,384,131	2,779,563
Repair and Maintenance	178,540	146,457	206,888
Commercial and financial services	421,095	159,091	274,985
Non-personal services	84,848	56,423	55,116
Materials and supplies	121,187	54,966	116,056
Rentals	44,726	28,848	17,926
Basic services	213,248	189,304	175,099
Travel and transportation	75,210	66,453	68,498
Fuel and lubricants	8,140	7,388	5,105
Other expenses	11,492	-	949,066
Sub-total National Dispatch Center	<u>5,136,103</u>	<u>4,093,062</u>	<u>4,648,302</u>

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	December 31		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Hydrometeorology			
Personnel expenses	1,503,770	1,506,535	1,075,087
Repair and Maintenance	49,078	15,315	31,797
Commercial and financial services	336,381	114,524	116,787
Non-personal services	32,194	28,249	6,968
Materials and supplies	41,739	24,233	36,558
Rentals	120,043	205,613	81,916
Basic services	29,984	81,010	80,288
Travel and transportation	77,413	85,389	82,403
Fuel and lubricants	15,016	14,005	13,694
Other expenses	59,836	31,291	254,581
Sub-total of hydrometeorology	<u>2,265,454</u>	<u>2,106,164</u>	<u>1,780,079</u>
Total Integrated Operations	<u>7,401,557</u>	<u>6,199,226</u>	<u>6,428,381</u>
<u>General and administrative expenses</u>			
Personnel expenses	4,416,453	6,137,525	4,473,456
Repairs and maintenance	200,389	163,840	107,885
Commercial and financial services	1,565,657	304,182	356,675
Non-personal services	1,788,966	1,980,664	1,642,257
Materials and supplies	186,075	181,836	529,446
Rentals	359,192	318,409	453,689
Basic services	223,571	281,178	395,411
Travel and transportation	79,751	135,850	220,363
Fuel and lubricants	41,264	22,054	38,661
Taxes, regulation and inspection fees	413,704	1,172,947	933,168
International organizations	6,375	5,000	14,300
Provision for litigation	-	268,719	1,812,380
Provision for inventory obsolescence	-	-	682,104
Provision for voluntary retirement	1,226,993	-	-
Other expenses	<u>177,252</u>	<u>44,100</u>	<u>1,115,891</u>
	<u>10,685,643</u>	<u>11,016,304</u>	<u>12,775,686</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:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Salary and other remunerations	8,605,671	8,498,696	7,071,999
Representation expenses	291,829	272,735	291,851
Overtime	1,388,272	1,344,418	1,558,085
Thirteenth month and bonuses	2,890,560	2,023,894	2,161,848
Employer's contributions to employee benefit plan	3,779,085	2,646,012	2,378,516
Benefit on collective agreement	712,266	1,296,929	920,093
Provision for voluntary retirement	<u>1,226,993</u>	<u>-</u>	<u>-</u>
	<u>18,894,676</u>	<u>16,082,684</u>	<u>14,382,392</u>

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The finance costs are detailed as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Interest on financing	9,695,946	2,380,825	3,874,105
Interests for third line	9,737,261	4,500,000	-
Interest for tariff refund	859,887	769,531	-
Interests received	<u>(248,199)</u>	<u>(210,187)</u>	<u>(233,996)</u>
	<u>20,044,895</u>	<u>7,440,169</u>	<u>3,640,109</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.

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

	December 31		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current Tax Expense			
Current year (Tax Return)	4,309,495	1,854,177	1,405,464
Adjustment to taxes from previous years	-	<u>(2,706,758)</u>	-
	<u>4,309,495</u>	<u>(852,581)</u>	<u>1,405,464</u>
Expense for deferred income taxes			
Current year	<u>328,059</u>	<u>3,616,972</u>	<u>(39,081)</u>
Total income tax	<u>3,981,436</u>	<u>2,764,391</u>	<u>1,444,545</u>

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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>2018</u>	<u>December 31</u> <u>2017</u>	<u>2016</u>
Profit before income tax		32,677,127	3,386,217	3,784,013
Movement in balance of regulatory accounts		<u>(15,763,720)</u>	<u>-</u>	<u>-</u>
		<u>16,913,407</u>	<u>3,386,217</u>	<u>3,784,013</u>
Rate of statutory income tax:	30%	5,074,022	30% 1,015,865	30% 1,135,204
Fiscal Impact of:				
Non-taxable Income		(1,593,754)	(456,874)	
Non-deductible expenses		501,168	1,295,186	309,341
Changes in estimates related to previous years		<u>0</u>	<u>910,214</u>	<u>0</u>
Total income tax		<u>3,981,436</u>	<u>2,764,391</u>	<u>1,444,545</u>
		<u>23.5%</u>	<u>81.6%</u>	<u>38.2%</u>

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

	<u>December 31, 2018</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	-	<u>557,767</u>	<u>(557,767)</u>	-
Total deferred tax asset	-	<u>557,767</u>	<u>328,059</u>	<u>885,826</u>

	<u>December 31, 2017</u>			
	<u>Opening Balance</u>	<u>Recognized in results</u>	<u>Final Balance</u>	
Provision of inventories	228,291	(228,291)	-	-
Provision of litigation and tariff rate return	<u>3,388,681</u>	<u>(3,388,681)</u>	-	-
Total deferred income tax asset	<u>3,616,972</u>	<u>(3,616,972)</u>	-	-

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

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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.

		<u>December 31, 2018</u>				
		Fair Value				
Financial assets at amortized costs	Total amount in books	Level 1	Level 2	Level 3	Total	
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>					
Other financial liabilities						
Accounts payable	96,740,175	-	-	-	-	
				513,220,26		
Loans payable	494,797,099	-	-	6	513,220,266	
Contractors retentions	2,908,526	-	-	-	-	
	<u>590,892,143</u>					

		<u>December 31, 2017</u>				
		Fair Value				
Financial assets at amortized costs	Total amount In books	Level 1	Level 2	Level 3	Total	
Cash	26,702,057	-	-	-	-	
Accounts receivable	37,032,552	-	-	-	-	
Loans receivable associates	2,942,308	-	-	3,136,592	3,136,592	
	<u>66,676,917</u>					
Other financial liabilities						
Accounts payable	347,494,666	-	-	-	-	
				146,405,99		
Loans payable	138,993,453	-	-	3	146,405,993	
Withholdings to contractors	5,821,708	-	-	-	-	
	<u>492,309,827</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
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.

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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 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.

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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:

	December 31	
	<u>2018</u>	<u>2017</u>
Energy distributors	52,702,601	7,494,879
Energy generators	39,690,712	27,702,302
Government entities	588,464	588,464
Other market agents	1,174,099	1,027,284
Other	<u>5,177,740</u>	<u>219,624</u>
	99,333,616	37,032,553
Loan receivable associates	<u>2,596,154</u>	<u>2,942,308</u>
	<u>101,929,770</u>	<u>39,974,861</u>

For the accounts receivable held by the company as of December 31, 2018, 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.

	December 31	
	2018	2017
Segment 3	23,595,759	19,727,995
Segment 2	71,307,965	14,749,883
Segment 1	4,257,253	2,554,673
Travel Advance	172,638	-
Loans Receivable Associates	2,596,154	2,942,308
	<u>101,929,769</u>	<u>39,974,861</u>

Following are the provisions as of December 31, 2108 calculated by segment which includes ECL:

	Total Provision by Segment
Segment 1	10,562
Segment 2	58,467
Segment 3	<u>2,726,326</u>
Total Provision Accounts Receivable	<u>2,795,354</u>

At December 31, 2018, the aging of trade and other receivable and contract assets for all segments was as follows:

	2018
<u>Accounts receivable</u>	
Current	31,145,005
From 1 to 30 days past due	20,544,812
From 31 to 60 days past due	8,105,297
From 61 to 90 days past due	6,661,336
From 91 to 120 days past due	3,904,376
From 121 to 160 days past due	539,052
From 161 days and more past due	<u>26,760,568</u>
	99,333,616
<u>Loans receivable with related parties</u>	
Current	<u>2,596,154</u>

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

The following table provides information about the exposure to credit risk and ECLs for trade receivables on segment 3 from individual customers as at December 31, 2018.

	Weighted average loss rate	Gross carrying amount	Loss allowance
<u>Accounts receivable</u>			
Current balances	2.67%	15,538,176	370,719
From 1 to 30 days	5.51%	1,364,103	75,138
From 31 to 60 days	7.93%	1,146,457	90,898
From 61 to 90 days	10.18%	490,511	49,941
From 91 to 120 days	24.66%	219,563	54,144
From 121 to 160 days	29.00%	322,121	93,415
From 161 to 360 days	36.02%	4,107,572	1,584,815
From 360 days and more	100%	<u>407,256</u>	<u>407,256</u>
Segment 3		<u>23,595,759</u>	<u>2,726,326</u>

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>2017</u>
<u>Accounts receivable</u>	
Current and not impaired	9,419,158
From 1 to 30 days	7,604,500
From 31 to 60 days	5,685,788
From 61 to 90 days	7,922,152
From 91 to 120 days	4,296,557
From 121 to 160 days	1,176,728
From 161 days and more	927,668
	<u>37,032,553</u>
<u>Loans receivable</u>	
Current & not impaired	<u>2,942,308</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.

	December 31, 2018	2017
Balance as of 1 January according to IAS 39	937,980	937,980
Adjustment in the initial application of IFRS 9	<u>1,859,223</u>	-
Balance as of 1 January according to IFRS 9	2,797,203	-
Reversal of provision	<u>(1,849)</u>	-
Balance at the end of the year	<u>2,795,354</u>	<u>937,980</u>

Cash

ETESA held cash of B/.19,468,626 at 31 December 2018 (2017: B/.26,702,057). 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.

On initial application of IFRS 9, ETESA recognized an impairment allowance as at 1 January 2018 in the amount of B/.1. The amount of the allowance did not change during 2018.

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 insures 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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ETESA aims to maintain the level of cash at an amount in excess of expected cash outflows that stem financial liabilities (other than trade payables) over the next 60 days. ETESA also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. At 31 December 2018, the expected cash flows from trade and other receivables maturing within two months were B/.59,795,114 (2017: B/.27,530,582). This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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 “CABEI 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:

		<u>December 31, 2018</u> <u>Contractual Cash Flows</u>			
	<u>Gross carrying amount</u>	<u>Total</u>	<u>6 month or less</u>	<u>7 to 12 months</u>	<u>More than one year</u>
Accounts Payable	96,363,238	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>588,718,526</u>	<u>694,301,514</u>	<u>48,670,338</u>	<u>80,060,774</u>	<u>565,570,402</u>

		<u>December 31, 2017</u> <u>Contractual cash flows</u>			
	<u>Gross Carrying amount</u>	<u>Total</u>	<u>6 months or less</u>	<u>7 to 12 months</u>	<u>More than one year</u>
Accounts Payable	347,494,666	347,494,666	71,663,850	275,830,816	0
Loans payable	<u>138,993,453</u>	<u>149,688,094</u>	<u>43,932,349</u>	<u>61,208,871</u>	<u>44,546,874</u>
	<u>486,488,119</u>	<u>497,182,760</u>	<u>115,596,199</u>	<u>337,039,687</u>	<u>44,546,874</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:

	December 31	
	<u>2018</u>	<u>2017</u>
Fixed rate instruments		
Financial assets	2,596,154	2,942,308
Financial liabilities	(23,023,969)	(45,331,665)
	<u>(20,427,815)</u>	<u>(42,389,357)</u>
Variable rate instruments		
Financial liabilities	(472,062,530)	(93,661,788)

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.

Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, remain constant.

	Profit or Loss	
	<u>Increase</u>	<u>decrease</u>
December 31, 2018	<u>2,360,313</u>	<u>2,360,313</u>
December 31, 2017	<u>468,309</u>	<u>468,309</u>

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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).

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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>2018</u>	<u>2017</u>	<u>2016</u>
Net profit for the year	<u>12,931,971</u>	<u>621,826</u>	<u>2,339,468</u>
Weighted-average number of ordinary shares at 31 December	<u>52,000,000</u>	<u>52,000,000</u>	<u>52,000,000</u>
Basic and diluted earnings per share	<u>0.25</u>	<u>0.01</u>	<u>0.04</u>

(36) Subsequent events

- ETESA, on March 26, 2019, obtains a loan with Banco General S. A for the sum of B/.50 million with a twelve (12) month term, payable in biannual installments.
- ETESA, on April 2, 2019, draws from its revolving credit line with the Central American Bank for Economic Integration (CABEI), the sum of B/.50 million, to be paid within 18 months.
- ETESA, on April 2, 2019, proceeded with the advance payment and termination of the loan CFA009144 with the Corporación Andina de Fomento (CAF), which was due in October 2030. This payment is made for a total of of B/.74,775,757.

ISSUER

Empresa de Transmisión Eléctrica, S.A.

Edificio Sun Tower Mall Piso No 3
Avenida Ricardo J. Alfaro
Panamá, Rep. de Panamá

GLOBAL COORDINATOR, STRUCTURING AGENT AND JOINT BOOKRUNNER

Scotia Capital (USA) Inc.

250 Vesey Street
New York, New York
10281

STRUCTURING AGENT AND JOINT BOOKRUNNER

Merrill Lynch, Pierce, Fenner & Smith Incorporated

One Bryant Park
New York, New York
100036

JOINT LEAD MANAGER

Banco General, S.A.

Torre BG, Calle Aquilino de la Guardia and Avenida 5B Sur
Panama City, Panama

TRUSTEE, REGISTRAR, TRANSFER AGENT AND PAYING AGENT

The Bank of New York Mellon

240 Greenwich, Floor 7E
New York, New York 10286
United States

LEGAL ADVISORS TO ETESA

As to U.S. law:

Arnold & Porter

250 West 55th Street
New York, New York 10019
United States

As to Panamanian law:

Icaza, Gonzalez-Ruiz & Aleman

Aquilino de la Guardia Street No. 8 IGRA Building P.O.
Box 0823-02435
Panama City, Panama

LEGAL ADVISORS TO INITIAL PURCHASERS

As to U.S. law:

Milbank LLP

55 Hudson Yards
New York, New York 10001-2163
United States

As to Panamanian law:

Alemán, Cordero, Galindo & Lee

2nd Floor, Humboldt Tower,
East 53rd Street, Urb. Marbella
Panama City, Panama

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Empresa de Transmisión Eléctrica S.A.
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Preliminary Offering Memorandum

Global Coordinator

Scotiabank

Structuring Agents and Joint Bookrunners

BofA Merrill Lynch

Scotiabank

Joint Lead Manager

Banco General

Offering Memorandum dated ,
