

RISK FACTORS

Risks Related to Argentina

Overview

We are a stock corporation (sociedad anónima) incorporated under the laws of the Republic of Argentina and all of our revenues are earned in Argentina and all of our operations, facilities, and customers are located in Argentina. Accordingly, our financial condition and results of operations depend to a significant extent on macroeconomic, regulatory, political and financial conditions prevailing in Argentina, including growth rates, inflation rates, currency exchange rates, taxes, interest rates, and other local, regional and international events and conditions that may affect Argentina in any manner. For example, slower economic growth or economic recession could lead to a decreased demand for electricity in our concession area or to a decline in the purchasing power of our customers, which, in turn, could lead to a decrease in collection rates from our customers or increased energy losses due to illegal use of our service. Actions of the Argentine Government concerning the economy, including measures with respect to inflation, interest rates, price controls (including tariffs and other compensation of public services), foreign exchange controls and taxes, have had and may in the future have a material adverse effect on private sector entities, including us.

We cannot assure you that the Argentine Government will not adopt other policies that could adversely affect the Argentine economy or our business, financial condition or results of operations. In addition, we cannot assure you that future economic, regulatory, social and political developments in Argentina will not impair our business, financial condition or results of operations, or cause the market value of our ADSs and Class B common shares to decline.

A global or regional financial crisis and unfavorable credit and market conditions may negatively affect our liquidity, customers, business, and results of operations

The effects of a global or regional financial crisis and related turmoil in the global financial system may have a negative impact on our business, financial condition and results of operations, which is likely to be more severe on an emerging market economy, such as Argentina. This was the case in 2008, when the global economic crisis led to a sudden economic decline in Argentina in 2009, accompanied by inflationary pressures, depreciation of the Peso and a drop in consumer and investor confidence.

The effects of an economic crisis on our customers and on us cannot be predicted. Weak global and local economic conditions could lead to reduced demand or lower prices for energy, hydrocarbons and related oil products and petrochemicals, which could have a negative effect on our revenues. Economic factors such as unemployment, inflation and the unavailability of credit could also have a material adverse effect on demand for energy and, therefore, on our business financial condition and results of operations. The financial and economic situation in Argentina or in other countries in Latin America, such as Brazil, may also have a negative impact on us and third parties with whom we do, or may do, business.

In addition, the global economic crisis that began in the fourth quarter of 2008, triggering an international stock market crash and the insolvency of major financial institutions, limited the ability of Argentine companies to access international financial markets as they had prior to the crisis or made such access significantly more costly. A similar global or regional financial crisis in the future could limit our ability to access the credit or capital markets at a time when we require financing, thereby impairing our flexibility to react to changing economic and business conditions. For these reasons, any of the foregoing factors could together or independently have an adverse effect on our results of operations and financial condition and cause the market value of our ADSs to decline.

The Argentine economy remains vulnerable and any significant decline may adversely affect our business, results of operations, and financial condition

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high levels of inflation and currency devaluation. Sustainable economic growth in Argentina is dependent on a variety of factors, including the international demand for Argentine exports, the stability and competitiveness of the Peso against foreign currencies, confidence among consumers and foreign and domestic investors and a stable rate of inflation, national employment levels and the circumstances of Argentina's regional trade partners. Although the Argentine economy has recently shown positive signs and begun to restore confidence and access to worldwide international financial markets under the current administration, it remains vulnerable, as reflected by the following economic conditions:

- according to the revised calculation of 2004 gross domestic product ("GDP") published by the Instituto Nacional de Estadística y Censos (National Statistics and Census Institute or "INDEC") on June 29, 2016, which forms the basis for the real GDP calculation for every year after 2004, and recent data published by the INDEC in 2018, for the year ended December 31, 2017, Argentina's real GDP increase by 2.8% compared to the same period in 2016. Argentina's performance has depended to a significant extent on high commodity prices which, despite having favorable long-term trends, are volatile in the short-term and beyond the control of the Argentine Government and the private sector;
- continued increases in public expenditures have resulted and could continue to result in fiscal deficits and affect economic growth;
- inflation remains high and may continue at those levels in the future;
- investment as a percentage of GDP remains low to sustain the growth rate of the past decade;
- several protests or strikes took place during 2017, which adversely affects the stability of the political, social and economic environment and may negatively impact the global financial market's confidence in the Argentine economy. We cannot guarantee that these kinds of events will not occur in the future;

- energy or natural gas supply may not be sufficient to supply increased industrial activity (thereby limiting industrial development) and consumption;
- unemployment and informal employment remain high; and
- the Argentine Government's economic expectations may not be met and the process of restoring the confidence in the Argentine economy may take longer than anticipated.

As in the recent past, Argentina's economy may be adversely affected if political and social pressures inhibit the implementation by the Argentine Government of policies designed to control inflation, generate growth and enhance consumer and investor confidence, or if policies implemented by the Argentine Government that are designed to achieve these goals are not successful. These events could materially adversely affect our financial condition and results of operations, or cause the market value of our ADSs and our Class B common shares to decline.

We cannot assure you that a decline in economic growth, an increase in economic instability or the expansion of economic policies and measures taken or that may be adopted in the future by the Argentine Government to control inflation or address other macroeconomic developments that affect private sector entities such as us, all developments over which we have no control, would not have an adverse effect on our business, financial condition or results of operations or would not have a negative impact on the market value of our ADSs and Class B common shares.

The impact of congressional and presidential elections on the future economic and political environment of Argentina remains uncertain, but likely to be material

Since taking office on December 10, 2015, the Macri administration has announced and implemented several significant economic and policy reforms, including:

- Electricity system state of emergency and reforms. On December 16, 2015, the Macri administration declared a state of emergency of the national electricity system that was in effect until December 31, 2017. The state of emergency allowed the Argentine Government to take actions designed to guarantee the supply of electricity. In addition, following the Macri administration's announcement that it would reexamine energy subsidy policies, the ME&M increased electricity rates for the wholesale market for purchases made between February 1 through April 30, 2016. This increase was used to reduce subsidies to the sector. On January 29, 2016, the ENRE, through Resolution No. 1/16 approved a new tariff structure for electricity distribution which became effective on February 1, 2016, and introduced different prices depending on the categories of customers. Such resolution also contemplated a social tariff applicable to residential customers who comply with certain consumption requirements, which included a full exemption for monthly consumptions equal to or below 150 Kwh and other tariff benefits for customers who exceed such consumption levels but achieve a monthly consumption lower than that of the same period in the immediately preceding year. On the same date, through Resolution No. 2/16, the ENRE partially repealed Resolution No. 347/12, discontinuing the FOCEDE (as defined below) and ordered us to open a special bank account with a Central Bank authorized entity where the funds received pursuant to Resolution No. 347/12 were to be deposited through February 2016. By correcting tariffs, reducing subsidies and modifying the regulatory framework, the Macri administration aimed at correcting distortions in the energy sector and stimulating investment. Following the tariff increases, preliminary injunctions were requested by customers, and non-Governmental organizations that defend customers' rights, some of which were granted by Argentine courts. Among others, two separate orders led to the suspension of end-user electricity tariff increases in the Province of Buenos Aires and in the entire territory of Argentina.
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However, on September 6, 2016, the Argentine Supreme Court reversed the injunctions that had suspended end-user electricity tariff increases on the basis of formal objections and procedural defects and, therefore, as of the date of this annual report, increases to end-user electricity tariffs are no longer suspended. On September 12, 2016, pursuant to an Argentine Supreme Court decision, a public hearing conducted by the ME&M was held in relation to the approval of a new gas tariff schedule. In October 2016, such new gas tariff schedule was approved by the Macri administration establishing increases in tariffs ranging between 300% and 500%. On October 28, 2016, a non-binding public hearing was conducted by the ME&M and the ENRE to discuss tariff proposals submitted by distribution companies covering the greater Buenos Aires area (with approximately 15 million inhabitants), including us, for the 2017-2021 period within the framework of the RTI. On February 1, 2017, the ENRE enacted several resolutions which, among other policy changes, implemented a reduction of electricity tariff subsidies, and an increase in electricity tariffs for their residential customers. Such increases ranged between 61% and 148%, according to the amount of electricity consumption. During 2017, lower court injunctions suspended end-user electricity tariff increases, implemented as of February 1, 2017, in the provinces of Buenos Aires and Chaco. On November 30, 2017 and on January 31, 2018, the ENRE enacted the resolutions No. 603/17 and No. 33/18, respectively, which, among others, approved own distribution costs ("CPD") values, applicable as from December 1, 2017, and retroactively to consumption recorded in the months of August through November 2017 and the values of CPD, the values of the monthly installment to be applied in accordance with the provisions of ENRE Resolution No. 329/17 and the values of the Edenor's electricity rate schedule applicable to consumption recorded as from February 1, 2018. As of the date of this annual report, the tariff tables for the transport and distribution of electric energy during the five-year period 2017-2021 were effective and not subject to any injunctions. See "Item 5-Operating and Financial Review and Prospects-Integral Tariff Revision."

- Transport and distribution of natural gas reforms. On September 12, 2016, pursuant to an Argentine Supreme Court decision, a public hearing conducted by the ME&M was held for the approval of a new gas tariff schedule. In this regard, the ME&M issued Resolution No. 28/2016 and Resolution No. 31/16, pursuant to which it fixed the prices of natural gas at the supply point ("PIST") and the tariffs of distribution and transportation of natural gas that will reach residential and commercial users throughout the country, as well as to the supply of compressed natural gas to service stations and electricity generating plants and instructed the Ente Nacional Regulador del Gas ("ENARGAS") to carry out RTI process, to determine the tariffs of distribution and transportation of natural gas applicable throughout the country. The RTI concluded on March 27, 2018, and a new tariff schedule applicable to the transportation and distribution of natural gas has been published and will be in effect during the five-year period from April 2017 to March 2022.
 - INDEC reforms. Regarding the reliability of the information produced by the INDEC, the Macri administration appointed Mr. Jorge Todesca, previously a director of a private consulting firm, as head of the agency. The INDEC has implemented certain methodological reforms and adjusted certain macroeconomic statistics on the basis of such reforms. On January 8, 2016, Decree No. 55/2016 was issued by the Argentine Government declaring a state of administrative emergency on the national statistical system and on the official agency in charge of the system, the INDEC, which remained in effect until December 31, 2016. Following the emergency declaration, the INDEC ceased publishing statistical data until a rearrangement of its technical and administrative structure was finalized. During the implementation of these reforms, however, the INDEC used official consumer price index ("CPI") figures and other statistics published by the Province of San Luis and the City of Buenos Aires for reference as a benchmark of national inflation. As of the date of this annual report, the INDEC has published certain revised data, including the CPI monthly data since May 2016 and foreign trade and balance of payment statistics. On June 29, 2016, the INDEC published a report including revised GDP data for the years 2004 through 2015. On September 22, 2016, the INDEC resumed publication of its essential goods and services basket assessment. On November 9, 2016, the IMF Executive Board lifted its censure on the Republic of Argentina, noting that the Republic of Argentina had resumed the publication of data in a manner consistent with its obligations under the Articles of Agreement of the International Monetary Fund (IMF). The INDEC GDP data for 2016 shows a 2.2% GDP contraction compared to 2015. The INDEC GDP data for 2016 showed a 2.2% GDP contraction compared to 2015, while for 2017 showed a 2.8% GDP increased compared to 2016. See "Risks Related to Argentina-The credibility of several Argentine economic indexes was called into question, which may lead to a lack of confidence in the Argentine economy and, in turn, limit our ability to access credit and the capital markets."
 - Foreign exchange reforms. In addition, the Macri administration implemented certain reforms to the foreign exchange market regulatory framework that provided greater flexibility and easier access to the foreign exchange market. The principal measures adopted as of the date of this annual report included (i) the elimination of the requirement to register foreign exchange transactions in the Argentine Tax Authority's ("AFIP") database, (ii) the elimination of the requirement to transfer the proceeds of new financial indebtedness transactions into Argentina and settle such proceeds through the single and free floating foreign exchange market (the "MULC"), (iii) a decrease from 30% to 0% of the registered, non-transferable and non-interest-bearing deposit required in connection with certain transactions involving foreign currency inflows, and (iv) the elimination of the requirement of a minimum holding period (72 business hours) for purchases and subsequent sales of the securities. On January 11, 2018, with the aim of providing more flexibility to the foreign exchange system and promoting competition, allowing the entrance of new players to the system, the free floating foreign exchange market was created by means of Decree No. 27/2018. For additional information see "Item 10. Additional Information - Exchange Controls". The exchange rate published by Banco Nación as of April 17, 2018 was Ps. 20.18 to U.S.\$1.00.
 - Foreign trade reforms. The Macri administration eliminated export duties on wheat, corn, beef and regional products, and reduced the export duty on soybeans by 5%, to 30%. Further, the 5% export duty on most industrial exports and export duties on mining exports, were eliminated. With respect to payments of existing debts for imports of goods and services, the Macri administration eliminated most of the restrictions on access to the MULC and eliminated the amount for any new transactions. In addition, the import customs system was modified by the replacement of the Declaraciones Juradas Anticipadas de Importación system with a new import procedure that requires certain filings and import licences for certain goods (including textiles, footwear, toys, domestic appliances and automobile parts), which, unlike the previous system, does not contemplate discretionary federal Government approval of payments for the import of products through the MULC. By Decree No. 893/2017, published in the Official Gazette on November 2, 2017, the Argentine Government repealed article 1 of Decree No. 2,581/1964, article 10 of Decree No. 1,555/1986 and Decree No. 1,638/2001. As a result, the obligation of Argentine exporters to repatriate and settle for pesos in the MULC foreign currency proceeds derived from the export of goods was eliminated. On January 2, 2017, the Argentine Government further reduce the export duties rates of soybean and soybean products, establishing a monthly 0.5% decrease on the export duties rate beginning in January 2018 through December 2019. In addition, importers were offered short-term debt securities issued by the Argentine Government to repay outstanding commercial debt for the import of goods.
 - Debt Policy. Since taking office, the Macri administration negotiated agreements to settle outstanding claims with a large majority of holdout creditors. However, as of the date of this annual report, litigation initiated by bondholders that have not responded to Argentina's settlement proposal continues in several jurisdictions, although the size of the claims involved has decreased significantly. See "Item 3. - Key Information - Risk Factors - Risk Related to Argentina - Argentina's ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth and, consequently, affect our business, results of operations and prospects for growth."
 - Correction of monetary imbalances. The Macri administration announced the adoption of an inflation targeting regime to apply in parallel with the floating exchange rate regime and established inflation targets for the next four years. The Central Bank has increased intervention efforts in the foreign exchange market to reduce excess monetary imbalances and raised Peso interest rates to offset inflationary pressure. Since January 2017, the Central Bank started to use the seven-day repo reference rate as the anchor of its inflation targeting regime. Short term notes issued by the Central Bank ("LEBACs") are used to manage liquidity. On December 28, 2017, the Central Bank announced its inflation targets for 2018, 2019 and 2020. The inflation target for 2018 is 15%, representing an increase compared to the Central Bank's previous target range of 8%-12% for the same year. Inflation targets for 2019 and 2020 are 10% and 5%, respectively.
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- Corporate Criminal Liability Law (Ley de Responsabilidad Penal Empresaria). On March 1, 2018, the Corporate Criminal Liability Law came into effect, providing for the criminal liability of corporate entities for offenses against the public administration and cross-border bribery committed by, among others, its shareholders, attorneys-in-fact, directors, managers, employees, or representatives. A company found liable under this law may be subject to various sanctions, including, among others, fines from two to five times the undue benefit obtained or that could have been obtained and the partial or total suspension of activities for up to ten years. In addition, this law extended the criminal liability under the Argentine Criminal Code to actions committed outside Argentina by Argentine citizens or companies domiciled in Argentina.
 - Argentine capital markets reforms. On November 13, 2017, the executive branch submitted to the Argentine Congress draft legislation aimed to develop the Argentine domestic capital markets. The draft legislation provides for the amendment of the Argentine Capital Markets Law No. 26,831 (the “CML”), the Mutual Funds Law No. 24,083 and the Argentine Negotiable Obligations Law No. 23,576, among others. The draft law also amends certain tax provisions, as well as regulations relating to derivatives. On March 21, 2018, the draft legislation was approved by the Senate, subject to certain amendments. As of the date of this annual report, the draft legislation is under review by the Chamber of Deputies for its definitive approval.
 - Pension Reform Law (Ley de Reforma Previsional). On December 28, 2017, the Argentine Congress enacted the Pension Reform Law, whose goal is to overhaul Argentina’s social security program by implementing measures to facilitate its sustainability, while still protecting certain vulnerable beneficiaries. To that effect, the Pension Reform Law modified the basic formula for calculating the periodic adjustment of retirement benefits, pension payments and the Universal Child Allowance (Asignación Universal por Hijo) available to participants. Under the pre-existing regime, payments to beneficiaries were linked to wages and taxes. In particular, the periodic adjustments occurred twice a year and such adjustments were based on the variation in certain tax revenues assigned to Argentina’s National Social Security Administration (Administración Nacional de la Seguridad Social or “ANSES”) (with a 50% weighting) and the change in the average wage, based on the greater of the Remuneración Imponible Promedio de los Trabajadores Estables (“RIpte”), an index published by the Ministry of Labor that measures the salary increases of public sector employees, or the data published by INDEC (with a 50% weighting). Beginning in March 2018, payments to beneficiaries are linked to inflation. In particular, periodic adjustments will be quarterly on the basis of a formula that measures the variation of inflation (with a 70% weighting) and the RIpte index (with a 30% weighting). The law also guarantees a one-time supplemental payment to beneficiaries of the Universal Basic Benefit (Prestación Básica Universal) who have established 30 years or more of employment with effective contributions, so that the beneficiary’s pension is equivalent to eighty-two percent (82%) of the minimum wage value.

The Pension Reform Law also amended Section 252 of the Labor Law to permit employers to request the retirement of employees who have reached 70 years of age (compared to 65 years under the prior regimen). The employer must continue the employment relationship for one year or until the employee obtains the benefit, whichever occurs first. Notwithstanding the foregoing, male employees may exercise their right to request pension benefits at the age of 65 or thereafter and female employees may exercise such right at the age of 60 or thereafter. Public sector employees are excluded from the foregoing provision.
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To mitigate the adverse impact on certain beneficiaries of the transition to the new benefit adjustment formula approved by the Argentine Congress, on December 20, 2017, the Macri administration granted a special one-time Ps.750 subsidy to beneficiaries who receive less than Ps.10,000 per month and meet certain age and years of employment requirements under the law. Beneficiaries of non-contributory pensions for old age or disability who receive less than Ps.10,000 per month and those who meet the requirements of the Universal Pension for the Elderly (*Pensión Universal para el Adulto Mayor*) were also granted a one-time subsidy of Ps.375. Further, this measure provided a one-time subsidy of Ps.400 to beneficiaries of the Universal Child Allowance and/or the Universal Pregnancy Allowance (*Asignación Universal por Embarazo*).

- **Tax on Financial Transactions (*Impuesto al Cheque*)**. On December 27, 2017, the Argentine Congress extended the tax on financial transactions through 2022, and earmarked revenues collected under this tax item to fund the Argentine Integrated Pension System (SIPA).
- **Tax Reform (*Reforma Tributaria*)**. On December 27, 2017, the Argentine Congress approved a series of reforms to reduce the complexity and increase the efficiency of the Argentine tax regime by, for example, measures targeting tax evasion, as well as increasing the coverage of income tax as applied to individuals and encouraging investment while sustaining Argentina's medium- and long-term efforts to restore fiscal balance. The tax reforms will gradually come into effect over the next five years. The fiscal cost of the reform is estimated at 0.3% of Argentina's GDP. The tax reform is part of a larger program announced by President Macri intended to increase the competitiveness of the Argentine economy (including by reducing the fiscal deficit) and labor market, and reduce poverty levels on a sustainable basis. The main aspects of the tax reform are the following:
 - (i) Interest earned, and capital gains realized, by Argentine tax residents (individuals and undivided estates located in Argentina), derived from the sale or disposition of bonds issued by the federal Government, the provinces and municipalities of Argentina and the City of Buenos Aires, will be subject to income tax at a rate of (a) 5%, in the case of Peso-denominated securities that do not include an indexation clause, and (b) 15%, in the case of Peso-denominated securities with an indexation clause or foreign currency denominated securities; capital gains realized by Argentine tax residents (individuals and undivided estates located in Argentina) from the sale of equity securities on a stock exchange will remain exempt, subject to compliance with certain requirements.
 - (ii) Holders of notes issued by the federal Government, the provinces and municipalities of Argentina and the City of Buenos Aires that are not Argentine tax residents will be exempt from Argentine income taxes on interest and capital gains to the extent such beneficiaries do not reside in, or channel their funds through, non-cooperating jurisdictions. The non-cooperating jurisdictions list will be prepared and published by the executive branch. Short-term notes issued by the Central Bank (LEBACs) are outside the scope of these exemptions applicable to non-Argentine residents.
 - (iii) The aforementioned amendments have been in force since January 1, 2018.
 - (iv) Corporate income tax will be gradually reduced to 30% for the fiscal year commencing January 1, 2018, and to 25% for fiscal years commencing on or after January 1, 2020. Withholding taxes will be assessed on certain dividends or distributed profits bringing the total effective tax rate on corporate profits to 35%.

The tax reforms also provide for other amendments regarding social security contributions, tax administrative procedures law, criminal tax law, tax on liquid fuels and excise taxes.

• **Fiscal Consensus**. On December 22, 2017, the Chamber of Deputies passed into law the Fiscal Agreement (*"Pacto Fiscal"*), also known as the Fiscal Consensus (*"Consenso Fiscal"*). This law was based on an agreement signed on November 16, 2017 between the Argentine Government and representatives from 23 out of Argentina's 24 provinces, with the goal of implementing measures that favor sustained growth in economic activity, productivity and employment. The Fiscal Consensus includes a commitment to lowering distortive taxes by 1.5% of GDP over the next five years, a waiver of lawsuits against the Argentine Government and a Ps.20,000 million payment to the province of Buenos Aires (which will increase over the next five years) as a partial and progressive solution to the conflict related to the Buenos Aires Metropolitan Area Fund (*Fondo del Conurbano Bonaerense*).

As of the date of this annual report, the final impact that the aforementioned measures and any future measures to be taken by the current administration will have on the Argentine economy as a whole, and our business in particular, cannot be fully anticipated. We cannot predict how the current administration will address certain political and economic issues that were central during the Presidential election campaign, such as the financing of public expenditure and public service subsidies, or the impact that any measures related to these issues that are implemented by the current administration will have on the Argentine economy as a whole. We cannot assure you that these measures, or any future measures, taken by the Macri administration will have a positive impact on the Argentine economy, would not have an adverse effect on our business, financial condition or results of operations or would not have a negative impact on the market value of our ADSs and Class B common shares.

If the high levels of inflation continue, the Argentine economy and our results of operations could be adversely affected

Historically, inflation has materially undermined the Argentine economy and the Argentine Government’s ability to create conditions that allow growth. In recent years, Argentina has confronted inflationary pressures, evidenced by significantly higher fuel, energy and food prices, among other factors. From 2011 to date, Argentina experienced increases in inflation as measured by the wholesale price index (“WPI”) that reflected the continued growth in the levels of private consumption and economic activity (including exports and public and private sector investment), which applied an upward pressure on the demand for goods and services, evidenced by significantly higher fuel, energy and food prices, among others. According to data published by the INDEC, CPI rates for July, August, September, October, November and December 2017, and January, February and March 2018 were 1.7%, 1.4%, 1.9%, 1.5%, 1.4%, 3.1%, 1.8%, 2.4% and 2.3%, respectively. See “–The credibility of several Argentine economic indexes was called into question, which may lead to a lack of confidence in the Argentine economy and, in turn, limit our ability to access credit and the capital markets” below. The previous administration has in the past implemented programs to control inflation and monitor prices for essential goods and services, including by freezing the prices of supermarket products, and through price support arrangements with private sector companies in several industries and markets. The Argentine Government’s adjustments to electricity and gas tariffs, as well as the increase in the price of gasoline have affected prices, creating additional inflationary pressure.

A high inflation rate affects Argentina’s foreign competitiveness by diluting the effects of the Peso devaluation, negatively impacting employment and the level of economic activity and undermining confidence in Argentina’s banking system, which may further limit the availability of domestic and international credit to businesses. In turn, a portion of the Argentine debt continues to be adjusted by the *Coeeficiente de Estabilización de Referencia* (Stabilization Coefficient, or “CER”), a currency index, that is strongly related to inflation. Therefore, any significant increase in inflation would cause an increase in the Argentine external debt and consequently in Argentina’s financial obligations, which could exacerbate the stress on the Argentine economy. A continuing inflationary environment could undermine our results of operations, adversely affect our ability to finance the working capital needs of our business on favorable terms; and it could adversely affect our results of operations and cause the market value of our ADSs and Class B common shares to decline.

Although conditions necessary to qualify the Argentine economy as hyperinflationary in accordance with provisions of IAS 29 have not been met, and considering professional and regulatory limitations for the preparation of adjusted financial statements as of December 31, 2017, certain macroeconomic variables affecting the Company’s business, such as wage costs and purchase prices, have experienced significant annual variations, and as a result should be considered in the evaluation and interpretation of the financial position and results presented by the Company in the Consolidated Financial Statements. In case inflation rates continue to escalate in the future, the Argentine Peso may qualify as a currency of a hyperinflationary economy, in which case our audited Consolidated Financial Statements and other financial information may need to be adjusted by applying a general price index and expressed in the measuring unit (i.e., the hyperinflationary currency) current at the end of each reporting period. We cannot determine at this time the impact that this would have on our results of operations and financial condition

The credibility of several Argentine economic indexes was called into question, which may lead to a lack of confidence in the Argentine economy and, in turn, limit our ability to access credit and the capital markets

In January 2007, the INDEC modified its methodology used to calculate the CPI, which is calculated as the monthly average of a weighted basket of consumer goods and services that reflects the pattern of consumption of Argentine households. Prior to 2015, the credibility of the CPI, as well as other indices published by the INDEC were called into question.

On November 23, 2010, the Fernández de Kirchner administration began consulting with the IMF for technical assistance in order to prepare a new national CPI with the aim of modernizing the statistical system. However, Argentina was subsequently censured by the IMF in 2014 for failing to make sufficient progress in adopting remedial measures to address the quality of official data, including inflation and GDP. On November 9, 2016, the IMF Executive Board listed its censure on Argentina, noting that Argentina has resumed the publication of data in a manner consistent with its obligations under the Articles of Agreement of the IMF.

In order to address the quality of official data, a new price index was put in place on February 13, 2014. Such new price index represented the first national indicator to measure changes in prices of final consumption by households. Unlike the previous price index, which only measured inflation in the urban sprawl of the City of Buenos Aires, the new price index was calculated by measuring prices of goods across the entire urban population of the 24 provinces of Argentina. Although this methodology brought inflation statistics closer to those estimated by private sources, material differences between official inflation data and private estimates remained during 2015. In November 2015, the INDEC suspended the publication of the CPI and the WPI.

On January 8, 2016, based on its determination that the INDEC had failed to produce reliable statistical information, particularly with respect to CPI, GDP and foreign trade data, as well as with poverty and unemployment rates, the Macri administration declared a state of administrative emergency for the national statistical system and the INDEC that remained in effect through December 31, 2016. The INDEC suspended the publication of certain statistical data until a reorganization of its technical and administrative structure to recover its ability to produce reliable statistical information was finalized in June 2016. During the suspension period, the INDEC published CPI figures published by the City of Buenos Aires and the Province of San Luis for reference as an estimated benchmark for national inflation. In June 2016, the INDEC resumed publishing an official inflation rate using a new methodology for calculating the CPI.

On September 22, 2016, the INDEC resumed publication of its essential goods and services basket assessment. On July 11, 2017, the INDEC began publishing a national CPI (the “National CPI”). The National CPI is based on a survey conducted by INDEC and several provincial statistical offices in 39 urban areas including each of the Argentina’s provinces. The official CPI inflation rate for the year ended December 31, 2017 was 24.8%.

High inflation rates affect Argentina’s foreign competitiveness, social and economic inequality, negatively impact employment, consumption and the level of economic activity and undermine confidence in Argentina’s banking system, which could further limit the availability of and access by local companies to domestic and international credit. Inflation rates could escalate in the future, and there is uncertainty regarding the effects that the Government measures to control inflation that are adopted, or that may be adopted in the future, may have. Increased inflation could adversely affect the Argentine economy, which in turn may have an adverse effect on our financial condition and results of operations.

Notwithstanding measures taken by the INDEC to address appropriate inflation statistics, some private economists estimate significantly higher inflation rates than those published by the INDEC for the period from 2007 to 2015. Any future required correction or restatement of the INDEC indexes could result in decreased confidence in Argentina’s economy, which, in turn, could have an adverse effect on our ability to access international capital markets to finance our operations and growth, and which could, in turn, adversely affect our results of operations and financial condition and cause the market value of our ADSs and Class B common shares to decline.

Argentina’s past default and litigations with holdout bondholders may limit our ability to access international markets

Argentina’s history of defaults on its external debt and the protracted litigation with holdout creditors, summarized below, may reoccur in the future and prevent Argentine companies such as us from accessing the international capital markets readily or may result in higher costs and more onerous terms for such financing, and may therefore negatively affect our business, results of operations, financial condition, the value of our securities, and our ability to meet our financial obligations.

Following the default on its external debt in 2001, Argentina sought to restructure its outstanding debt by offering holders of the defaulted bonds two opportunities to exchange them for newly issued debt securities, in 2005 and again in 2010. Holders of approximately 93% of Argentina’s defaulted debt participated in the exchanges. Nonetheless, a number of bondholders held out from the exchange offers and pursued legal actions against Argentina in the courts of the United States and several other countries.

After almost 15 years of litigation, and following the beginning of Macri Administration, in February 2016 Argentina negotiated and reached settlement agreements with a significant portion of its holdout creditors. As required by the settlement, on March 31, 2016, the Argentine Congress voted to repeal Laws No. 26,017 (known as “Ley Cerrojo”) and 26,984 (known as “Ley de Pago Soberano”), which prohibited Argentina from offering to the holdouts better conditions than those offered in the debt swaps of 2005 and 2010. On April 13, 2016, Argentina announced that it would proceed with a new bond offering of up to U.S.\$ 12.5 billion to repay the holdouts. After issuing U.S.\$ 16.5 billion of new bonds to international investors, on April 22, 2016 Argentina notified the competent U.S. court that it had made full payment under the settlement agreements with the holdout creditors. Although the size of the claims involved has decreased significantly, litigation initiated by bondholders that have not accepted Argentina’s settlement offer continues in several jurisdictions.

However, even though Argentina has successfully accessed the international capital markets since the settlement, there continues to be a risk that the country will not attract the foreign direct investment and financing needed to restart the investment cycle and achieve sustainable rates of economic growth. If that risk occurs, Argentina’s fiscal condition could be adversely affected, which could lead to more inflation and undermine the government’s ability to implement economic policies designed to promote growth. The difficulty of sustaining over time economic growth with reasonable price stability could result in a renewed episode of economic instability.

In addition, the foreign shareholders of several Argentine companies (including us), together with public utilities and certain bondholders that did not participate in the exchange offers described above, filed claims with the International Centre for Settlement of Investment Disputes (“ICSID”), alleging that the emergency measures adopted by the Government in 2002 do not meet the just and equal treatment requirements of several bilateral investment treaties to which Argentina is a party. Several of these claims have been resolved against Argentina.

Past situations, such as the lawsuits with creditors that did not accept to the debt exchange, the claims before the ICSID, and the economic policy measures adopted by the Government or any future default of Argentina regarding its financial obligations may harm Argentine companies’ ability to obtain financing. Even financial conditions of such access could be disadvantageous to Argentine companies and, therefore, may adversely affect our business, results of operations, financial condition, the value of our securities, and our ability to meet our financial obligations.

Fluctuations in the value of the Peso could adversely affect the Argentine economy and, which could, in turn adversely affect our results of operations

Fluctuations in the value of the Peso may also adversely affect the Argentine economy, our financial condition and results of operations. The devaluation of the Peso may have a negative impact on the ability of certain Argentine businesses to service their foreign currency-denominated debt, lead to very high inflation, significantly reduce real wages, jeopardize the stability of businesses whose success depends on domestic market demand including public utilities and the financial industry and adversely affect the Argentine Government’s ability to honor its foreign debt obligations. After several years of moderate variations in the nominal exchange rate, the peso lost more than 50% of its value with respect to the U.S. dollar in 2015 and approximately 22% in 2016, including a depreciation of approximately 34% mainly experienced after December 17, 2015 following the announcement of the lifting of a significant portion of foreign exchange restrictions. As of December 21, 2017, the Peso had lost 21.2% of its value with respect to the U.S. dollar as of December 27, 2016. Since the devaluation in December 2015, the Central Bank has allowed the Peso to float and limited interventions to those needed to ensure the orderly functioning of the foreign exchange market. As of December 31, 2017, the exchange rate was Ps. 18.649 to U.S.\$ 1.00 and the depreciation of the Peso with respect to the U.S. Dollar reached approximately 17% during 2017. We are unable to predict the future value of the Peso against the U.S. Dollar. If the Peso devalues further, the negative effects on the Argentine economy could have adverse consequences to our business, our results of operations and the market value of our ADSs, including as measured in U.S. Dollars.

On the other hand, a significant appreciation of the Peso against the U.S. Dollar also presents risks for the Argentine economy, including the possibility of a reduction in exports (as a consequence of the loss of external competitiveness). Any such increase could also have a negative effect on economic growth and employment, reduce the Argentine public sector's revenues from tax collection in real terms, and have a material adverse effect on our business, our results of operations and the market value of our ADSs, as a result of the overall effects of the weakening of the Argentine economy.

From time to time, the Central Bank may intervene in the foreign exchange market in order to maintain the currency exchange rate. Additional volatility, appreciations or depreciations of the Peso or reduction of the Central Bank's reserves as a result of currency intervention could adversely affect the Argentine economy and our ability to service our debt obligations, including the our ADSs.

Government intervention may adversely affect the Argentine economy and, as a result, our business and results of operations

In the recent past, the Fernández de Kirchner administration increased its direct intervention in the economy, including through the implementation of expropriation and nationalization measures, price controls and exchange controls.

Notwithstanding the measures recently adopted by the Macri administration and its planned liberalization of the economy, we cannot assure you that measures that may be adopted by the current or any future Argentine Government, such as expropriation, nationalization, forced renegotiation or modification of existing contracts, new taxation policies, changes in laws, regulations and policies affecting foreign trade and investments will not have a material adverse effect on the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations or cause the market value of our ADSs and Class B common shares to decline.

The implementation in the future of new exchange controls and restrictions on capital inflows and outflows could limit the availability of international credit and could threaten the financial system, adversely affecting the Argentine economy and, as a result, our business

Starting in December 2001, the Argentine Government imposed a number of monetary and foreign exchange control measures in an attempt to prevent capital flight and a further depreciation of the Peso. These measures included restrictions on the free disposition of funds deposited with banks, the exchange of Argentine currency into foreign currencies and the transfer of funds abroad without prior approval by the Central Bank, and were implemented in circumstances where a serious imbalance developed in Argentina's balance of payments.

Although several of such exchange controls and transfer restrictions were subsequently suspended or terminated, in June 2015 the Argentine Government issued a decree that established new controls on capital flows, which resulted in a decrease in the availability of international credit for Argentine companies. Through a combination of foreign exchange and tax regulations from 2011 until President Macri assumed office in December 2015, the Fernández de Kirchner administration significantly curtailed access to the foreign exchange market by individuals and private-sector entities. In response, an unofficial U.S. Dollar trading market was developed in which the Peso-U.S. Dollar exchange rate in such market differed substantially from the official Peso-U.S. Dollar exchange rate. See "Item 3. Key Information-Exchange Rates" and "Item 10-Exchange Controls."

As of the date of this annual report, the Macri administration has eliminated all foreign exchange restrictions that developed under the Fernández de Kirchner administration.

In addition, the level of international reserves deposited with the Central Bank significantly decreased from U.S.\$ 47.4 billion as of November 1, 2011 to U.S.\$25.6 billion as of December 31, 2015, resulting in a reduced ability of the Argentine Government to intervene in the foreign exchange market and to provide access to such markets to private sector entities like us. The Macri administration has aimed at increasing the level of international reserves deposited with the Central Bank through the adoption of different measures. As a result of the measures adopted, the Central Bank's international reserves increased to over U.S.\$ 55.1 billion as of December 31, 2017.

Notwithstanding the measures recently adopted by the Macri administration, in the future the Argentine Central Bank and Argentine Government could re-introduce exchange controls, impose restrictions on transfers abroad, restrictions on the movement of capital or take other measures in response to capital flight or a significant depreciation of the Argentine Peso, which could limit our ability to access the international capital markets. Such measures could lead to political and social tensions and undermine the Argentine Government's public finances, as has occurred in the past, which could have an adverse effect on economic activity in Argentina and, consequently, adversely affect our business and results of operations and cause the market value of our ADSs and Class B common shares to decline. As of the date of this annual report, however, the transfer of funds abroad to pay dividends is permitted to the extent such dividend payments are made in connection with audited financial statements approved by a shareholders' meeting of the Company.

The Argentine economy remains vulnerable to external shocks that could be caused by significant economic difficulties of Argentina's major regional trading partners, particularly Brazil, or by more general "contagion" effects. Such external shocks and "contagion" effects could have a material adverse effect on Argentina's economic growth, and consequently, our results of operations and financial condition.

Weak, flat or negative economic growth of any of Argentina's major trading partners such as Brazil could adversely affect Argentina's economic growth. Argentina's economy is vulnerable to external shocks. For example, economic slowdowns, especially in Argentina's major trading partners, led to declines in Argentine exports in the last few years. Specifically, fluctuations in the price of the commodities sold by Argentina and a significant revaluation of the peso against the U.S. dollar could harm Argentina's competitiveness and affect its exports. In addition, international investors' reactions to events occurring in one market sometimes demonstrate a "contagion" effect in which an entire region or class of investment is disfavored by international investors.

The economy in Brazil, one of the main import and export markets for Argentina, experienced rising negative pressure because of political uncertainty, including the removal from office of the President Dilma Rousseff and the fallout from the continuing investigation into the Lava Jato corruption scandal. After two years of retreat, in 2017 the Brazilian economy grew by 1%. Additionally, during 2017 the country continued to suffer a political and institutional crisis that included new requests for impeachment of President Temer and general strikes against the reforms imposed by the government. Argentine foreign trade is highly dependent on the Brazilian economy; thus a poor performance of Brazil's economy could lead to the deterioration of Argentina's trade balance. Additional Brazilian political and economic crises could negatively affect Argentine economy.

Financial and securities markets in Argentina are also influenced by economic and market conditions in other markets worldwide. U.S. monetary policy has significant effects on capital inflows and asset price movements in emerging market economies. Increases in U.S. interest rates result in the appreciation of the U.S. dollar and decreases in prices for raw materials, which can adversely affect commodity-dependent emerging economies.

Additionally, a slowing of China's GDP growth has led to a reduction in exports to this Asian country, which in turn has caused oversupply and price declines in certain commodities. Decreases in exports have a material adverse effect on Argentina's public finances due to a loss of tax on exports, causing an imbalance in the country's exchange market.

On June 23, 2016, the United Kingdom voted in favor of exiting the European Union. On March 29, 2017, UK Prime Minister Theresa May triggered the Brexit process. As of the date of this Annual Report, the actions that the United Kingdom will take to effectively exit from the European Union or the length of such process are uncertain. The results of the United Kingdom's referendum and the initiation of the Brexit process have caused, and are anticipated to continue to cause, volatility in the financial markets, which may in turn have a material adverse effect on our business, financial condition and results of operations. The United Kingdom's general election on June 8, 2017 left the conservative party without a majority, increasing the uncertainty surrounding the Brexit and the chance to reach a deal with the European Union by 2019.

On November 8, 2016, Donald J. Trump was elected President of the United States and he took office in January 2017. President Trump has evidenced an inclination to consider greater restrictions on free trade and immigration. Changes in social, political, regulatory and economic conditions in the United States or in laws and policies governing foreign trade could create uncertainty in the international markets and could have a negative impact on emerging market economies, including the Argentine economy, which in turn could have a negative impact on our operations. In addition, on February 5, 2018, Jerome H. Powell took the oath of office as Chairman of the Board of Governors of the Federal Reserve System, succeeding Janet L. Yellen. Mr. Powell has expressed its intention to continue with the policy of the Federal Reserve System to gradually raise interest rates as the economic conditions in the U.S. improve and adjust the strategy depending on how the economy performs. If the U.S. economy continues to be perceived as gaining momentum, the recent U.S. tax overhaul by the Trump administration, which slashed the corporate income tax rate and cut personal income tax rates, could cause an economy that may be nearing full capacity and prompt the Federal Reserve System to become more aggressive than anticipated in its course of interest rate hikes. The Trump administration recently issued tariffs on certain products altering the international trade environment, which combined with the increase in the U.S. reference interest rates has created additional volatility in the U.S. and the international markets.

On October 27, 2017, the regional government of Catalonia declared independence from Spain. In response to this declaration, the Spanish national government rejected the declaration and intervened, dissolving the regional parliament and convening new elections to elect new regional authorities. These conflicts in the European Union in general, and in Spain in particular, may have political, regulatory and economic implications on the international markets.

Although economic conditions vary from country to country, investors' perceptions of events occurring in other countries have in the past substantially affected, and may continue to substantially affect, capital flows into and investments in securities from issuers in other countries, including Argentina. International investors' reactions to events occurring in one market sometimes demonstrate a "contagion" effect in which an entire region or class of investment is disfavored by international investors. Argentina could be adversely affected by negative economic or financial developments in other countries, which in turn may have an adverse effect on our financial condition and results of operations.

Certain economic policies of the former government administration in Argentina, including the relationship with the IMF and the foreign exchange restrictions, led in the past to a reduction in exports and foreign direct investments, to a decline in national tax revenues and to the inability to access international capital markets. There can be no assurance that the Argentine financial system and securities markets will not be adversely affected by policies that may be adopted by the government in the future or by events in the economies of developed countries or in other emerging markets.

Argentina could be adversely affected by negative economic or financial developments in other emerging and developed countries, which in turn may have material adverse effect on the Argentine economy and, indirectly, on our business, financial condition and results of operations, and the market value of our ADSs and Class B common shares.

Application of certain laws and regulations is uncertain and could adversely affect our results of operations and financial condition

Law No. 26,854, which regulates injunctions in cases in which the Argentine Government is a party or has intervened, was promulgated on April 30, 2013 as part of a judicial reform bill approved by the Argentine Congress. Among the principal changes implemented pursuant to the judicial reform bill is a time limitation on injunctions imposed in proceedings brought against the Argentine Government and the creation of three new chambers of Casación, each of which must hear an appeal before the matter is considered by the Supreme Court of Justice of Argentina. In addition, Law No. 26,855, which became effective on May 27, 2013, modified the structure and functions of the Argentine Consejo de la Magistratura (judicial council), which has the authority to appoint judges, present charges against them and suspend or remove them. As of the date of this annual report, several aspects of this legislation have been struck down as unconstitutional by the Argentine Supreme Court.

On August 7, 2014, Law No. 26,944 on State Responsibility was enacted to regulate Government actions. Said law governs the responsibility of the Argentine Government regarding the damages that its activity or inactivity may cause to individuals’ properties or rights. Such law establishes that the Argentine Government’s responsibility is objective and direct, that the provisions of the civil and commercial codes are not applicable to the actions of the Argentine Government in a direct nor subsidiary manner and that dissuasive financial penalties may be imposed on the Argentine Government, its agents or officers.

On September 18, 2014, the Argentine Congress enacted Law No. 26,991 amending Law No. 20,680 (the “Supply Law”), which became effective on September 28, 2014, to increase control over the supply of goods and provision of services. Such initiative includes the ability of the Argentine Government to regulate consumer rights under Article 42 of the Constitution and permits the creation of an authority to maintain the prices of goods and services (the “Observer of Prices of Goods and Services”). The Supply Law, as amended: (i) requires the continued production of goods to meet basic requirements; (ii) creates an obligation to publish prices of goods and services produced and borrowed; (iii) allows financial information to be requested and seized; and (iv) increases fines for judicial and fiscal persons. The reforms and creation of the Observer of Prices of Goods and Services could adversely affect our operations. An initiative to regulate questions of consumer rights was also approved, creating the Conciliación Previa en las Relaciones de Consumo (Prior Conciliatory Procedures For Consumer Relations, or the “COPREC”), where users and consumers may present claims free of charge and have them resolved within 30 days.

The Supply Law applies to all economic processes linked to goods, facilities and services which, either directly or indirectly, satisfy basic consumer needs (“Basic Needs Goods”) and grants a broad range of powers to its enforcing agency. It also grants the enforcing agency the power to order the sale, production, distribution or delivery of Basic Needs Goods throughout the country in case of a shortage of supply.

On October 1, 2014, the Argentine Congress approved the reform, update and unification of the National Civil and Commercial codes. A single new National Civil and Commercial Code became effective on August 1, 2015. In addition, more recently Argentina Congress has passed certain laws such as those reforming the pension system and establishing corporate criminal liability for certain corrupt practices and a tax law reform, for more information see “Item 2. Key Information-Risk Factors-Risks relating to Argentina-The impact of congressional and presidential elections on the future economic and political environment of Argentina remains uncertain, but likely to be material.”

The long-term impact of recently adopted legislation on Argentina’s legal system and future administrative or judicial proceedings, including potential future claims by us against the Argentine Government, cannot be predicted.

Risks Relating to the Electricity Distribution Sector

The Argentine Government has intervened in the electricity sector in the past, and may to continue intervening

Historically, the Argentine Government has exerted a significant influence on the economy, including the energy sector, and companies such as us that operate in such sector have done so in a highly regulated context that aims mainly at guaranteeing the supply of domestic demand.

To address the Argentine economic crisis in 2001 and 2002, the Argentine Government adopted the Public Emergency Law and other regulations, which made a number of material changes to the regulatory framework applicable to the electricity sector. These changes severely affected electricity generation, distribution and transmission companies and included the freezing of distribution nominal margins, the revocation of adjustment and inflation indexation mechanisms for tariffs, a limitation on the ability of electricity distribution companies to pass on to the customer increases in costs due to regulatory charges and the introduction of a new price-setting mechanism in the wholesale electricity market (the “WEM”) which had a significant impact on electricity generators and generated substantial price differences within the market. From time to time, the Argentine Government has continued to intervene in this sector by, for example, granting temporary nominal margin increases, proposing a new social tariff regime for residents of poverty-stricken areas, removing discretionary subsidies, creating specific charges to raise funds that were transferred to Government-managed trust funds that finance investments in generation and distribution infrastructure and mandating investments for the construction of new generation plants and the expansion of existing transmission and distribution networks.

On December 17, 2015, the Argentine Government issued Decree No. 134/15 declaring the emergency of the national electricity sector which was in effect until December 31, 2017, and instructing the ME&M to adopt any measure the ME&M deemed necessary regarding the generation, transmission and distribution segments, to adjust the quality, and guarantee the provision of, electricity. The emergency declaration expired and was not renewed.

As of the date of this annual report, the Argentine Government, through the relevant agency enacted several resolutions to impose the penalties regime of the services and adjusting the tariffs. On February 1, 2017, the RTI process was completed and a new tariff scheme for the following five-year period was enacted.

Notwithstanding the recent measures adopted, we cannot assure you that certain other regulations or measures that may be adopted by the Argentine Government will not have a material adverse effect on our business and results of operations or on the market value of our shares and ADSs or that the Argentine Government will not adopt emergency legislation similar to the Public Emergency Law or other similar regulations in the future that may increase our obligations, including increased taxes, unfavorable alterations to our tariff structures and other regulatory obligations, compliance with which would increase our costs and may have a direct negative impact on our results of operations and cause the market value of our ADSs and Class B common shares to decline. See “Item 4. Information on the Company—Our Business Overview—Edenor Concession.”

There is uncertainty as to what other measures the Argentine Government may adopt in connection with tariffs on public services and their impact on the Argentine economy.

Electricity distributors were severely affected by the emergency measures adopted during the economic crisis, many of which remain in effect

Distribution tariffs include a regulated margin that is intended to cover the costs of distribution and provide an adequate return over the distributor’s asset base. Under the Convertibility Regime, distribution tariffs were calculated in U.S. Dollars and distribution margins were adjusted periodically to reflect variations in U.S. inflation indexes. Pursuant to the Public Emergency Law, in January 2002 the Argentine Government froze all distribution margins, revoked all margin adjustment provisions in distribution concession agreements and converted distribution tariffs into Pesos at a rate of Ps. 1.00 per U.S.\$ 1.00. These measures, coupled with the effect of high inflation and the devaluation of the Peso, led to a decline in distribution revenues and an increase of distribution costs in real terms, which could no longer be passed on to users through adjustments to the distribution margin. This situation, in turn, led many public utility companies, including us and other important distribution companies, to suspend payments on their commercial debt (which continued to be denominated in U.S. Dollars despite the pesification of revenues), effectively preventing these companies from obtaining further financing in the domestic or international credit markets and making additional investments.

In recent years, the Argentine Government granted temporary and partial reliefs to some distribution companies, including limited increases in distribution margins, temporary cost adjustment mechanism which was not fully implemented and the ability to apply certain additional charges to customers.

On February 1, 2017, the RTI process was completed. Through Resolution No. 63/17 (then amended by ENRE Resolutions No. 82/17 and No. 92/17), the ENRE approved a rate of return for us of 12.46% before taxes. The resulting income was determined by applying the Net Replacement Value (“NRV”) methodology, over a slightly lower base capital than the one we had submitted in our proposal, reaching an amount of Ps. 34 billion. The difference with our proposal is mainly explained by the fact that the ENRE excluded the fully depreciated assets from the regulatory net asset base. Moreover, the ENRE stated that our acknowledged remuneration as of December 2015 was Ps. 12.5 billion, which adjusted to February 2017 reached to Ps. 17.2 billion. The ENRE also established a non-automatic mechanism to adjust our tariffs, as it had done within the original Concession Contract and the Adjustment Agreement, in order to preserve the economic and financial sustainability of the concession in the event of price fluctuations in the economy. This mechanism has a biannual basis and includes a combined formula of wholesale and consumer price indexes (WPI, CPI and salaries increases) which trigger the adjustment of tariffs when the result is above 5%.

Edenor filed an administrative appeal (*recurso de reconsideración*) against ENRE’s Resolution No. 63/17. On October 25, 2017, the ENRE -through Resolution No. 524/17- rejected the appealed filed by Edenor.

On January 31, 2018, the ENRE issued Resolution No. 33/18 wich approved the new distribution cost for Edenor to be applied as from February 1, 2018 and the new tariff scheme.

Furthermore, such resolution approved the new CPD adjustments (last stage of 17% according to Resolution. No 63/17, including the inflation adjustment of 11.9% for the period July 2017- December 2017 and the stimulus factor “E” of negative 2.51%) and determined the deferred income to be recovered in 48 instalments for a total amount of Ps. 6,343.4 million. Additionally, it reported that the price of the average tariff reached 2.4627 Ps./ Kwh.

However, we cannot guarantee you that these measures will be sufficient to address the structural problems created for us by the economic crisis and its aftermath. Our inability to cover the costs of distribution or to receive an adequate return on our asset base may further adversely affect our financial condition and results of operations.

Electricity demand may be affected by tariff increases, which could lead distribution companies, such as us, to record lower revenues

From 2012 through 2017, electricity demand in Argentina increased 5.7%, which reflects the relative low cost, in real terms, of electricity to customers due to the freezing of distribution margins, the establishment of subsidies in the purchase price of energy and the elimination of the inflation adjustment provisions in distribution concessions, coupled with the devaluation of the Peso and inflation.

Although increases in electricity transmission and distribution margins, and the elimination of subsidies, which increased the cost of electricity to end users, have not had a significant negative effect on demand in the past, we cannot make any assurance that recent increases or any future increases in the cost of electricity will not have a material adverse effect on electricity demand or result in a decline in collections from customers. In this respect, we cannot assure you that these measures or any future measure will not lead electricity companies, like us, to record lower revenues and results of operations, which may, in turn, have a material adverse effect on the market value of our ADSs.

If we experience continued energy shortages in the face of growing demand for electricity, our ability to deliver electricity to our customers could be adversely affected, which could result in customer claims, material penalties, Government intervention and decreased results of operations

In recent years, the condition of the Argentine electricity market has provided little incentive to generators and distributors to further invest in increasing their generation and distribution capacity, respectively, which would require material long-term financial commitments. Although there were several investments in generation during 2017, which would increase the installed capacity power in the coming years, the highest density of investments was concentrated in the GBA area. It is still necessary to make several investments on the Transmission and Distribution system to guarantee the delivery of this electricity to the customer and reduce the frequency of interruptions. During December 2013, an increase in demand for electricity resulted in energy shortages and blackouts in Buenos Aires and other cities around Argentina. Under Argentine law, distribution companies, such as us, are responsible to their customers for any disruption in the supply of electricity. As a result, we could face customer claims and fines and penalties for service disruptions caused by energy shortages unless the relevant Argentine authorities determine that energy shortages constitute force majeure. Additionally, disruptions in the supply of electricity could expose us to intervention by the Argentine Government, which warned of such possibility during the blackouts of December 2013. Such claims, fines, penalties or Government intervention could have a materially adverse effect on our financial condition and results of operations, and cause the market value of our ADSs and Class B common shares to decline. See also “–A potential nationalization or expropriation of 51% of our capital stock, represented by the Class A shares, may limit the capacity of the Class B common shares to participate in the board of directors.”

Risks Relating to Our Business

Failure or delay to negotiate further improvements to our tariff structure, including increases in our distribution margin, and/or to have our tariffs adjusted to reflect increases in our distribution costs in a timely manner or at all, has affected our capacity to perform our commercial obligations and could also have a material adverse effect on our ability to perform our financial obligations.

Since the execution of the agreement entered into with the Argentine Government in February 2006 relating to the adjustment and renegotiation of the terms of our concession (the “Adjustment Agreement”) and as required by them, we have been engaged in an RTI with the ENRE.

The Adjustment Agreement contemplated a cost adjustment mechanism for the transitional period during which the RTI process was being conducted. This mechanism, known as the Cost Monitoring Mechanism (“CMM”), required the ENRE to review our actual distribution costs every six months (in May and November of each year) and adjust our distribution margins to reflect variations of 5% or more in our distribution cost base. We could also request that the ENRE apply the CMM at any time that the variation in our distribution cost base was at least 10% or more. Any adjustments, however, were subject to the ENRE’s assessment of variations in our costs, and the ENRE’s approval of adjustments were not sufficient to cover our actual incremental costs in a timely manner. In the past, even when the ENRE approved adjustments to our tariffs, there was a lag between the time when we actually experienced increases in our distribution costs and the time when we received increased income following the corresponding adjustments to our distribution margins pursuant to the CMM.

As a result of the foregoing, during the years ended December 31, 2014, 2012 and 2011, we recorded a negative operating results and net results, and thus our working capital and liquidity levels were negatively affected (even in 2013), primarily as a result of the delay in obtaining a tariff increase and in having our tariff adjusted to reflect increases in our distribution costs, coupled with a constant increase in operating costs to maintain adequate service levels all of which has affected our capacity to perform our commercial obligations. In this context and in light of the situation that affected the electricity sector, the ENRE issued Resolution No. 347/12 in November 2012, which established the application of fixed and variable charges that have allowed the Company to obtain additional revenue as from November 2012 through 2016. However, changes made by Resolution No. 250/13 and Notes No. 6,852/13, No. 4,012/14, No. 486/14 and No. 1,136/14 of the SE and additional revenue obtained through Resolution No. 347/12 were insufficient to make up for our operating deficit in 2014, due to the constant increase in operating costs.

In March 2015, Resolution No. 32/15 of the former SE granted us a temporary increase in income through funds provided by CAMMESA, applicable retroactively as from February 1, 2015 through February 1, 2016, to cover costs and investments associated with the regular provision of the public service of distribution of energy on account of the future RTI.

In January 2016, the ME&M issued Resolution No. 7/16, pursuant to which the ENRE implemented a VAD adjustment to the tariff schedule on account of the future RTI in effect as of February 1, 2016.

In addition, such resolution: (i) abrogated the PUREE; (ii) repealed Resolution No. 32/15 as from the date the ENRE resolution implementing the new tariff schedule becomes effective; (iii) discontinued the application of mechanisms that imply the transfer of funds from CAMMESA in the form of loan agreements with CAMMESA; (iv) ordered the implementation of the actions required to terminate the trusts created pursuant to Resolution No. 347/12 of the ENRE and (v) prohibited the distribution of dividends in accordance with Section 7.04 of the Adjustment Agreement.

Pursuant to Resolution No. 7/16, the ENRE issued Resolution No. 1/16 establishing a new tariff structure, which remained in force (with certain suspensions as a result of injunctions, which are no longer in effect) until February 2017, when the RTI process was completed. See “Risk Factors– Risks Relating to Our Business–Failure or delay to negotiate further improvements to our tariff structure, including increases in our distribution margin, and/or to have our tariffs adjusted to reflect increases in our distribution costs in a timely manner or at all, has affected our capacity to perform our commercial obligations and could also have a material adverse effect on our capacity to perform our financial obligations.”

Prior to the completion of the RTI process, several regulatory mechanisms, programs or changes were implemented from time to time by the ENRE to adjust Edenor’s tariffs to reflect increased costs. Any requested adjustments were usually subject to the ENRE’s assessment of variations in Edenor’s costs, and not sufficient to cover Edenor’s actual incremental costs in a timely manner. Even when the ENRE approved adjustments to Edenor’s tariffs, there was a lag between the time when Edenor actually experienced increases in the distribution costs and the time when Edenor received increased income following the corresponding adjustments to its distribution margins

On April 1, 2016, the ENRE issued Resolution No. 55/16, which approved the program for the review of the distribution tariff scheme, establishing the criteria and methodologies for completing the RTI process.

On September 5, 2016, by means of Resolution No. 55/16, we submitted our rate schedule proposal for the following five-year period. On October 28, 2016, a public hearing was held to provide information and listen to the public opinion on the RTI.

The RTI was completed on February 1, 2017, on which date the ENRE issued Resolution No. 63/2017, through which it approved a new tariff scheme that established our new distribution added value (VAD) for the following five-year period. For more information, see “Item 5–Operating and Financial Review and Prospects–Integral Tariff Revision”. On January 31, 2018, the ENRE issued Resolution N° 33/18 approving the new distribution cost for Edenor to be applied as for February 1, 2018 and the new tariff scheme applicable to Edenor.

However, if we are not able to recover all future cost increases and have them reflected in our tariffs, and/or if there is a significant lag of time between when we incur the incremental costs and when we receive increased income we may be unable to comply with our financial obligations, we may suffer liquidity shortfalls and we may need to restructure our debt to ease our financial condition, any of which, individually or in the aggregate, would have a material adverse effect on our business and results of operations and may cause the value of our ADSs to decline.

Our distribution tariffs may be subject to challenges by Argentine consumer and other groups

In the recent years, our tariffs have been challenged by Argentine consumer associations, such as the action brought against us in December 2009, by an Argentine consumer association (*Unión de Usuarios y Consumidores*) seeking to annul certain retroactive tariff increases, which was ultimately dismissed, on October 1, 2013, by the Argentine Supreme Court of Justice.

In May 2016, we were notified by several courts of the Province of Buenos Aires of certain injunctions granted to individual and collective customers against Resolution No. 6/16 and Resolution No. 1/16 issued by the ENRE (which authorized our new tariff schedule as from February 2016). Consequently, the then applicable tariff schedule, which included the WEM prices established by Resolution No. 6/16, were not applied during certain periods in 2016 (i) to the entire concession area as a result of the injunctions issued in the “Abarca” case and (ii) to the districts of “Pilar” and “La Matanza”, where provisional remedies remained in effect until October 24 and November 11, 2016, respectively, when they expired. Therefore, as of those dates, no provisional remedy has been in effect and tariff increases have been applied to all customers. If any future legal challenge were successful and prevented us from implementing any tariff adjustments granted by the Argentine Government, we could face a decline in collections from our customers, and a decline in our results of operations, which could have a material adverse effect in our financial condition and the market value of our ADSs.

We have been, and may continue to be, subject to fines and penalties that could have a material adverse effect on our financial condition and results of operations

We operate in a highly regulated environment and have been, and in the future may continue to be, subject to significant fines and penalties by regulatory authorities, including for reasons outside our control, such as service disruptions attributable to problems at generation facilities or in the transmission network that result in a lack of electricity supply. Since 2001, the amount of fines and penalties imposed on our company has increased significantly. As of December 31, 2017, 2016 and 2015, our accrued fines and penalties totaled Ps. 4,174.0 million, Ps. 3,533.5 million and Ps. 1,066.8 million, respectively (taking into account adjustments made to fines and penalties following the ratification of the Adjustment Agreement and recent regulation). See “Item 4. Information on the Company–Our Business Overview–Fines and Penalties.”

On October 19, 2016, by means of Note No. 123,091 the ENRE established the average rate values (Ps./KWh) to be applied as from December 2012, for the penalties payable to the Argentine Government. In accordance with the terms of the Concession Agreement, such values should correspond to the average sale price of energy charged to customers. Since the amounts set forth in the Note were not consistent with such principle, on November 1, 2016, the Company submitted a claim to the ENRE requesting the rectification of the amounts informed as they were considered incorrect. As of the date of this annual report, Edenor had received the response from the ENRE (Note No. 129,061).

On February 1, 2017, the ENRE issued Resolution No. 63/17, through which it approved new parameters related to the quality standards, with the purpose of achieving by the end of the 2017-2021 period an acceptable quality level. In this regard, the ENRE established a penalty regime to be applied in the event of non-compliance with the requisite quality rates.

On March 29, 2017, through Note No. 125,248 the ENRE established a new methodology for the calculation of fines and penalties, determining that they must be valued according to the Kwh values in effect as of the first day of the semester during which the event giving rise to the penalty occurred or the Kwh values in effect as of the day of the occurrence of the event in the case of penalties arising from specific events.

In addition, fines and penalties, accrued and not imposed during the Transition Period of the Adjustment Agreement must be updated using the CPI that the Argentine Central Bank uses to elaborate the Multilateral Real Exchange Rate Index (“TCRM”), corresponding to the month prior to the semester during which the event giving rise to the penalty occurred or the month prior to that on which the specific penalty event occurred, till the previous month of the day on which the penalty was imposed. Those fines and penalties accrued and imposed since the date of issuance of the Note No. 120,151 through the completion of the RTI on February 1, 2017 (i.e., the period between April 2016 and February 2017) must also be updated using the CPI.

Furthermore, we cannot assure that we will have the ability to comply with the new quality standards set forth by Resolution No. 63/2017. In the case of penalties which had been imposed but are still unpaid, the 30-day interest rate of the *Banco Nación* corresponding to commercial discounts applies, as from the day when the penalty was imposed through the date of payment.

Despite the issuance of Resolution No. 63/2017, the treatment to be given to the penalties and reductions is still pending settlement.

We may incur significant fines in the future, which could have a material adverse effect on our financial condition, our results of operations and the market value of our ADSs. See “Item 4. Information on the Company–Our Business Overview–Fines and Penalties” and “Item 4. Information on the Company–Our Business Overview–Quality Standards”

If we are unable to control our energy losses, our results of operations could be adversely affected

Our concession does not allow us to pass through to our customers the cost of additional energy purchased to cover any energy losses that exceed the loss factor contemplated by our concession, which is, on average, 18%. As a result, if we experience energy losses in excess of those contemplated by our concession, we may record lower operating profits than we anticipate. Prior to the 2001 and 2002 economic crisis, we were able to reduce the high level of energy losses experienced at the time of the privatization down to the levels contemplated (and reimbursed) under our concession. However, during the last years, our level of energy losses, particularly our non-technical losses, started to grow again, in part as a result of the increase in poverty levels and, in turn, the number of delinquent accounts and fraud. Although we continue to make investments to reduce energy losses, these losses continue to exceed the average 18% loss factor contemplated by the concession and, based on the current tariff schedule and economic turmoil, we do not expect these losses to decrease in the near term. Our energy losses amounted to 17.1% in 2017, 17.0% in 2016 and 14.9% in 2015. We cannot assure you that our energy losses will not continue to increase in future periods, which may lead us to have lower margins and could adversely affect our financial condition, our results of operations and the market value of our ADSs.

The Argentine Government could foreclose on the pledge of our Class A common shares under certain circumstances, which could have a material adverse effect on our business and financial condition

Pursuant to our concession and the provisions of the Adjustment Agreement, the Argentine Government has the right to foreclose on the pledge of our Class A common shares and sell these shares to a third party buyer if:

- the fines and penalties incurred in any given year exceed 20% of our gross energy sales, net of taxes (which corresponds to our energy sales);
- we repeatedly and materially breach the terms of our concession and do not remedy these breaches upon the request of the ENRE;
- Electricidad Argentina S.A. ("EASA") (being merged into CTLL, which is being merged into Pampa Energia S.A., our controlling shareholder, EASA, creates any lien or encumbrance over our Class A common shares (other than the existing pledge in favor of the Argentine Government);
- we or EASA obstruct the sale of Class A common shares at the end of any management period under our concession;
- EASA fails to obtain the ENRE's approval in connection with the disposition of our Class A common shares;
- our shareholders amend our articles of incorporation or voting rights in a way that modifies the voting rights of the Class A common shares without the ENRE's approval; or
- we, or any existing shareholders or former shareholders of EASA who have brought a claim against the Argentine Government in the ICSID do not desist from such ICSID claims following completion of the RTI and the approval of a new tariff regime.

On February 1, 2017, the ENRE issued Resolution No. 63/17 establishing the new tariff scheme resulting from the completion of the RTI process, for the following five-year period. In accordance with the provisions of the Adjustment Agreement, EASA and EDFI withdrew their ICSID claim, and on March 28, 2017, the ICSID acknowledged the discontinuance of the procedure.

If the Argentine Government were to foreclose on the pledge of our Class A common shares, pending the sale of those shares, the Argentine Government would also have the right to exercise the voting rights associated with such shares. In addition, the potential foreclosure by the Argentine Government on the pledge of our Class A common shares could be deemed to constitute a change of control under the terms of our Senior Notes due 2022. See "We may not have the ability to raise the funds necessary to finance a change of control offer as required by the Senior Notes due 2022." If the Argentine Government forecloses on the pledge of our Class A common shares, our results of operations and financial condition could be significantly affected and the market value of our ADSs could also be affected.

In 2017, our fines and penalties remained below the 20% of our gross energy sales. See "Item 4. Information on the Company—Our Concession—Fines and Penalties."

Default by the Argentine Government could lead to termination of our concession, and have a material adverse effect on our business and financial condition

If the Argentine Government breaches its obligations in such a way that we cannot comply with our obligations under our concession agreement or in such a way that our service is materially affected, we may request the termination of our concession, after giving the Argentine Government a 90 days' prior notice, in writing. Upon termination of our concession, all our assets used to provide the electricity distribution service would be transferred to a new state-owned company to be created by the Argentine Government, whose shares would be sold in an international public bidding procedure. The amount obtained in such bidding would be paid to us, net of the payment of any debt owed by us to the Argentine Government, plus an additional compensation established as a percentage of the bidding price, ranging from 10% to 30%, depending on the management period in which the sale occurs. Any such default could have a material adverse effect on our business and financial condition.

We may be unable to import certain equipment to meet the growing demand for electricity, which could lead to a breach of our concession contract and could have a material adverse effect on the operations and financial position of the Company

Certain restrictions on imports that may be adopted in the future by the Argentine Government could limit or delay our ability to purchase capital goods that are necessary for our operations (including carrying out specific projects). Under our concession, we are obligated to satisfy all of the demand for electricity originated in our concession area, maintaining at all times certain service quality standards that have been established for our concession. If we are not able to purchase significant capital goods to satisfy all of the demand or suffer unexpected delays in the import process, we could face fines and penalties which may, in turn, adversely affect our activity, financial position and results of operations and/or the market value of your ADSs.

We employ a largely unionized labor force and could be subject to an organized labor action, including work stoppages that could have a material effect on our business

As of December 31, 2017, approximately 86% of Edenor employees were union members. Although our relations with unions are currently stable and we have had an agreement in place with the two unions representing our employees since 1995, we cannot assure you that we will not experience work disruptions or stoppages in the future, which could have a material adverse effect on our business and revenues. We cannot assure you that we will be able to negotiate salary agreements or labor conditions on the same terms as those currently in effect, or that we will not be subject to strikes or work stoppages before or during the negotiation process. If we are unable to negotiate salary agreements or if we are subject to demonstrations or work stoppages, our results of operations, financial conditions and the market value of our ADSs could be materially adversely affected.

We could incur material labor liabilities in connection with our outsourcing that could have an adverse effect on our business and results of operations

We outsource a number of activities related to our business to third-party contractors in order to maintain a flexible cost base. As of December 31, 2017, we had approximately 5,477 third-party employees under contract. Although we have very strict policies regarding compliance with labor and social security obligations by our contractors, we are not in a position to ensure that contractors will not initiate legal actions to seek indemnification from us based upon a number of judicial rulings issued by labor courts in Argentina which have recognized joint and several liabilities between a contractor and the entity to which it is supplying services under certain circumstances. We cannot make any assurances that such proceedings will not be brought against us or that the outcome of such proceedings would be favorable to us. If we were to incur material labor liabilities in connection with our outsourcing, such liability could have an adverse effect on our financial condition, our results of operations and the market value of our ADSs.

Our performance is largely dependent on recruiting and retaining key personnel

Our current and future performance and the operation of our business are dependent upon the contributions of our senior management and our skilled team of engineers and other specialized employees. We depend on our ability to attract, train, motivate and retain key management and specialized personnel with the necessary skills and experience. There is no guarantee that we will be successful in retaining and attracting key personnel and the replacement of any key personnel who were to leave could be difficult and time consuming. The loss of the experience and services of key personnel or the inability to recruit suitable replacements and additional staff could have a material adverse effect on our business, financial condition and results of operations.

We are currently not able to effectively hedge our currency risk in full and, as a result, increased devaluation of the Peso may have a material adverse effect on our results of operations and financial condition

Our revenues are collected in Pesos pursuant to tariffs that are not indexed to the U.S. Dollar, while all of our existing financial indebtedness is denominated in U.S. Dollars, which exposes us to the risk of loss from increased devaluation of the Peso. We are currently hedging part of this risk by converting a portion of our excess cash denominated in Pesos into U.S. Dollars and investing those funds outside Argentina, as permitted by applicable Central Bank regulations or by entering into currency forward contracts. In 2015, the Peso lost approximately 52% of its value with respect to the U.S. Dollar, including a depreciation of approximately 34% mainly experienced after December 17, 2015 following the announcement of the lifting of a significant portion of exchange restrictions. In 2017 and 2016, the devaluation of the Peso with respect to the U.S. Dollar reached approximately 17% and 22%, respectively. In each of 2017 and 2016, our hedging contracts did not cover all of our exposure to such depreciation. We cannot assure you that the Argentine Government will maintain current exchange regulations or that we will secure hedging transactions significant to cover all or a part of our exposure on favorable terms. If we continue to be unable to effectively hedge all or a sufficient portion of our currency risk exposure, a further devaluation of the Peso may significantly increase our debt service burden, which, in turn, may have a material adverse effect on our financial condition and results of operations.

We are involved in various legal proceedings which could result in unfavorable decisions and financial penalties for us

We are party to a number of legal proceedings, some of which have been pending for several years. We cannot be certain that these claims will be resolved in our favor, and responding to the demands of litigation may divert our management's time and attention and our financial resources. See "Item 8. Legal Proceedings."

In the event of an accident or other event not covered by our insurance, we could face significant losses that could materially adversely affect our business and results of operations

As of December 31, 2017, our physical assets were insured for up to U.S.\$ 1,516.8 million. However, we do not carry insurance coverage for losses caused by our network or business interruption, including for loss of our concession. See "Item 4. Information on the Company—Our Business—Insurance." Although we believe our insurance coverage is commensurate with standards for the distribution industry, no assurance can be given of the existence or sufficiency of risk coverage for any particular risk or loss. If an accident or other event occurs that is not covered by our current insurance policies, we may experience material losses or have to disburse significant amounts from our own funds, which may have a material adverse effect on our net profits and our overall financial condition and on the market value of our ADSs.

A substantial number of our assets are not subject to attachment or foreclosure and the enforcement of judgments obtained against us by our shareholders may be substantially limited

A substantial number of our assets are essential to the public service we provide. Under Argentine law, as interpreted by the Argentine courts, assets which are essential to the provision of a public service are not subject to attachment or foreclosure, whether as a guarantee for an ongoing legal action or in aid of enforcement of a court judgment. Accordingly, the enforcement of judgments obtained against us by our shareholders may be substantially limited to the extent our shareholders seek to attach those assets to obtain payment on their judgment.

The loss of exclusivity to distribute electricity in our service area may be adversely affected by technological or other changes in the energy distribution industry, which would have a material adverse effect on our business

Although our concession grants us the exclusive right to distribute electricity within our service area, this exclusivity may be revoked in whole or in part if technological developments would make it possible for the energy distribution industry to evolve from its present condition as a natural monopoly into a competitive business. In no case does the complete or partial revocation of our exclusive distribution rights entitle us to claim or to obtain reimbursement or indemnity. Although, to our knowledge, there are no current projects to introduce new technologies in the medium- or long-term which might reasonably modify the composition of the electricity distribution business, we cannot assure you that future developments will not enable competition in our industry that would adversely affect the exclusivity right granted by our concession. Any total or partial loss of our exclusive right to distribute electricity within our service area would likely lead to increased competition and result in lower revenues, which could have a material adverse effect on our financial condition, our results of operations and the market value of our ADSs.

A potential nationalization or expropriation of 51% of our capital stock, represented by the Class A shares, may limit the capacity of the Class B common shares to participate in the board of directors

As of the date of this annual report, the ANSES owns shares representing 26.8% of our capital stock and appointed five Class B directors in our last shareholders' meeting. The rest of our directors were appointed by the Class A shares.

If the Argentine Government were to expropriate 51% of our capital stock, represented by our Class A shares, the Argentine Government would be the sole holder of the Class A shares and the ANSES would hold the majority of the Class B shares. Certain strategic transactions require the approval of the holders of the Class A shares. Consequently, the Argentine Government and the ANSES would be able to determine substantially all matters requiring approval by a majority of our shareholders, including the election of a majority of our directors, and would be able to direct our operations.

If the Argentine Government nationalizes or expropriates 51% of our capital stock, represented by our Class A shares, our results of operations and financial condition could be adversely affected and this could cause the market value of our ADSs and Class B common shares to decline.

We may not have the ability to raise the funds necessary to repay our commercial debt with CAMMESA, our major supplier

As of December 31, 2017, we owed approximately Ps. 4,719.9 million to CAMMESA, (including interest). This commercial debt is due and unpaid and we have not secured any waivers from CAMMESA. If CAMMESA requested that we repay such debt in a single payment, we may be unable to raise the funds necessary to repay it and, consequently, we could be exposed to a cash attachment, which could in turn result in our filing for a voluntary reorganization proceeding ("*concurso preventivo*"), which could cause the market value of our ADSs and Class B common shares to decline (see "*Risks related to Our Business*"—All of our outstanding financial indebtedness contains bankruptcy, reorganization proceedings and expropriation events of default, and we may be required to repay all of our outstanding debt upon the occurrence of any such events").

On April 26, 2017, we were notified by Note No 2016-01193748 that the ME&M decided that the SEE, with the support of the Under-Secretariat for Tariff Policy Coordination and the ENRE, would be responsible for determining (within a period of 120 days) whether any pending obligations under the Adjustment Agreement remained outstanding as of the effective date of the applicable electricity tariff schedules resulting from the implementation of the RTI process. If any such obligations remained outstanding, the treatment to be given to those obligations was also to be determined by the SEE as described above. The Company has submitted the information requested by the ME&M as part of its efforts to comply with these requirements. However, as of the date of this annual report, due to the fact that a definitive decision on the treatment of these obligations is still pending, the Company started negotiations with the SEE thereon.

Downgrades in our credit ratings could materially and adversely affect our business, financial condition and results of operations.

A material downgrade of our credit ratings may have various effects including, but not limited to, the following: we may have to accept less favorable terms in our transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions; existing agreements or transactions may be cancelled; and we may be required to provide additional collateral in connection with derivatives transactions. Any of these or other effects resulting from a downgrade of our credit ratings could have a negative impact on the profitability of our treasury and other operations, and could adversely affect our regulatory capital position, financial condition and results of operations.

All of our outstanding financial indebtedness contains bankruptcy, reorganization proceedings and expropriation events of default, and we may be required to repay all of our outstanding debt upon the occurrence of any such events

As of the date of this annual report, approximately U.S.\$ 171.9 million of our financial debt is represented by the Senior Notes due 2022 (the “Senior Notes due 2022”). Under the indenture for the Senior Notes due 2022, certain expropriation and condemnation events with respect to us may constitute an event of default, which, if declared, could trigger the acceleration of our obligations under the notes and require us to immediately repay all such accelerated debt. In addition, all of our outstanding financial indebtedness contains certain events of default related to bankruptcy and voluntary reorganization proceedings (“concurso preventivo”). If we are not able to comply with certain payment obligations as a result of our current financial situation and if the requirements set forth in the Argentine Bankruptcy Law No. 24,522 are met, any creditor, or even us, could file for our bankruptcy, or we could file for a voluntary reorganization proceeding (“concurso preventivo”). In addition, all of our outstanding financial indebtedness also contains cross-default provisions or cross-acceleration provisions that could cause all of our debt to be accelerated if the debt containing expropriation or bankruptcy or reorganization proceeding events of default goes into default or is accelerated. In such a case, we would expect to actively pursue formal waivers from the corresponding financial creditors to avoid such potential situation, but in case those waivers are not timely obtained and immediate repayment is required, we could face short-term liquidity problems, which could adversely affect our results of operations and cause the market value of our ADSs and Class B common shares to decline.

We may not have the ability to raise the funds necessary to finance a change of control offer as required by the Senior Notes due 2022

As of the date of this annual report, U.S.\$ 171.9 million of our financial debt is represented by the Senior Notes due 2022. Under the indenture for the Senior Notes due 2022, if a change of control occurs, we must offer to repurchase any and all such notes that are outstanding at a purchase price equal to 100% of the aggregate principal amount of such notes, plus any accrued and unpaid interest thereon and additional amounts, if any, through the purchase date. We may not have sufficient funds available to us to make the required repurchases of the Senior Notes due 2022 upon a change of control. If we fail to repurchase such notes in circumstances that may constitute an event of default under the indenture, which may in turn trigger cross-default provisions in other of our debt instruments then outstanding, our results of operations could be adversely affected and the market value of our ADSs and Class B common shares could decline.

The New York Stock Exchange and/or the Buenos Aires Stock Exchange may suspend trading and/or delist our ADSs and Class B common shares, upon the occurrence of certain events relating to our financial situation

The New York Stock Exchange (“NYSE”) and the Buenos Aires Stock Exchange (“BASE”) may suspend and/or cancel the listing of our ADSs and Class B common shares, respectively, in certain circumstances, including upon the occurrence of certain events relating to our financial situation. For example, the NYSE may decide such suspension or cancellation if our shareholders’ equity becomes negative.

The NYSE may in its sole discretion determine on an individual basis the suitability for continued listing of an issue in the light of all pertinent facts. Some of the factors mentioned in the NYSE Listed Company Manual, which may subject a company to suspension and delisting procedures, include: “unsatisfactory financial conditions and/or operating results”, “inability to meet current debt obligations or to adequately finance operations,” and “any other event or condition which may exist or occur that makes further dealings or listing of the securities on the NYSE inadvisable or unwarranted in the opinion of NYSE.”

The BASE may cancel the listing of our Class B common shares if it determines that our shareholders’ equity and our financial and economic situation do not justify our access to the stock market or if the NYSE cancels the listing of our ADSs.

We cannot assure you that the NYSE and/or BASE will not commence any suspension or delisting procedures in light of our current financial situation, including if our shareholders’ equity becomes negative. A delisting or suspension of trading of our ADSs or Class B common shares by the New York Stock Exchange and/or BASE, respectively, could adversely affect our results of operations and financial conditions and cause the market value of our ADSs and Class B common shares to decline.

Changes in weather conditions or the occurrence of severe weather (whether or not caused by climate change or natural disasters), could adversely affect our operations and financial performance.

Weather conditions may influence the demand for electricity, our ability to provide it and the costs of providing it. In particular, severe weather may adversely affect our results of operations by causing significant demand increases, which we may be unable to meet without a significant increase in operating costs. This could strongly impact the continuity of our services and our quality indicators. For example, the exceptional thunderstorms that occurred in April and December of 2013 and a heat wave that occurred in December of 2013 affected the continuity of our services, both in the low voltage and medium voltage networks. See “Item 4. Information on the Company–Business Overview–Quality Standards – Edenor’s Concession”. Furthermore, any such disruptions in the provision of our services could expose us to fines and orders to compensate those customers affected by any such power cuts, as has occurred in the past (see “Item 4. Information on the Company–Business Overview–Quality Standards –Fines and Penalties”). Our financial condition, results of operations and cash flows could therefore be negatively affected by changes in weather conditions and severe weather.

Cybersecurity events, such as a cyber-attack could adversely affect our business, financial condition, results of operations and cash flows

We depend on the efficient and uninterrupted operation of internet-based data processing communication and information exchange platforms and networks, including those systems related to our businesses. Cybersecurity risks have generally increased in recent years as a result of the proliferation of new technologies and the increased sophistication and activities of cyber-attacks. Through part of our grid and other initiatives, we have increasingly connected equipment and systems to the internet. Because of the critical nature of our infrastructure and the increased accessibility enabled through connection to the internet, we may face a heightened risk of cybersecurity incidents such as computer break-ins, phishing, identity theft and other disruptions that could negatively affect the security of information stored in and transmitted through our computer systems and network infrastructure. In the event of a cyber-attack, we could have our business operations disrupted, property damaged and customer information stolen; experience substantial loss of revenues, response costs and other financial loss; and be subject to increased regulation, litigation and damage to our reputation. In addition, while we have not experienced cybersecurity events, contingency plans in place may not be sufficient to cover liabilities associated with any such events and therefore, applicable insurance coverage may be deemed inadequate, preventing us from receiving full compensation for the losses sustained as a result of such a disruption. Although we intend to continue to implement security technology devices and establish operational procedures to prevent disruption resulting from, and counteract the negative effects of cybersecurity incidents within the next three years, it is possible that not all of our current and future systems are or will be entirely free from vulnerability and these security measures will not be successful. Accordingly, cybersecurity is a material risk for us and a cyber-attack could adversely affect our business, results of operations and financial condition.

Risks relating to ADSs and our Class B common shares

Restrictions on the movement of capital out of Argentina may impair the ability of holders of ADRs to receive dividends and distributions on, and the proceeds of any sale of, the Class B common shares underlying the ADSs.

The Argentine Government may impose restrictions on the conversion of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Argentina. Argentine law currently permits the government to impose these kinds of restrictions temporarily in circumstances where a serious imbalance develops in Argentina’s balance of payments or where there are reasons to foresee such an imbalance. Beginning in December 2001, the Argentine Government implemented an unexpected number of monetary and foreign exchange control measures that included restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad, including dividends, without prior approval by the Central Bank, some of which are still in effect. Although the transfer of funds abroad in order to pay dividends no longer requires Central Bank approval to the extent such dividend payments are made in connection with audited financial statements approved by a shareholders’ meeting, future restrictions on the movement of capital to and from Argentina such as those that previously existed could, if reinstated, impair or prevent the conversion of dividends, distributions, or the proceeds from any sale of shares, as the case may be, from Pesos into U.S. Dollars and the remittance of such U.S. Dollars abroad. Also, certain of our indebtedness includes covenant limiting the payment of dividends. We cannot assure you that the Argentine Government will not take similar measures in the future. In such a case, the depositary for the ADSs may hold the Pesos it cannot otherwise convert for the account of the ADS holders who have not been paid. In addition, any future adoption by the Argentine Government of restrictions to the movement of capital out of Argentina may affect the ability of our foreign shareholders and holders of ADSs to obtain the full value of their shares and ADSs, and may adversely affect the market value of our ADSs.

Our shareholders' ability to receive cash dividends may be limited.

Our shareholders' ability to receive cash dividends may be limited by the ability of the depositary to convert cash dividends paid in Pesos into U.S. Dollars. Under the terms of our deposit agreement with the depositary for the ADSs, the depositary will convert any cash dividend or other cash distribution we pay on the common shares underlying the ADSs into U.S. Dollars; if it can do so on a reasonable basis and can transfer the U.S. Dollars to the United States. If this conversion is not possible or if any Government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. If the exchange rate fluctuates significantly during a time when the depositary cannot convert the foreign currency, shareholders may lose some or all of the value of the dividend distribution.

Under Argentine law, shareholder rights may be fewer or less well defined than in other jurisdictions.

Our corporate affairs are governed by our by-laws and by Argentine corporate law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the States of Delaware or New York, or in other jurisdictions outside Argentina. In addition, the rights of holders of the ADSs or the rights of holders of our common shares under Argentine corporate law to protect their interests relative to actions by our board of directors may be fewer and less well-defined than those under the laws of those other jurisdictions. Although insider trading and price manipulation are illegal under Argentine law, the Argentine securities markets are not as highly regulated or supervised as the U.S. securities markets or markets in some other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in Argentina than in the United States, putting holders of our common shares and ADSs at a potential disadvantage.

Holders of ADSs may be unable to exercise voting rights with respect to the Class B common shares underlying the ADSs at our shareholders' meetings.

Shares underlying the ADSs are held by the depositary in the name of the holder of the ADS. As such, we will not treat holders of ADSs as one of our shareholders and, therefore, holders of ADSs will not have shareholder rights. The depositary will be the holder of the common shares underlying the ADSs and holders may exercise voting rights with respect to the Class B common shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are no provisions under Argentine law or under our by-laws that limit the exercise by ADS holders of their voting rights through the depositary with respect to the underlying Class B common shares. However, there are practical limitations on the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with these holders. For example, holders of our common shares will receive notice of shareholders' meetings through publication of a notice in an official gazette in Argentina, an Argentine newspaper of general circulation and the daily bulletin of the BASE, and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, do not receive notice directly from us. Instead, in accordance with the deposit agreement, we provide the notice to the depositary. If we ask it to do so, the depositary will mail to holders of ADSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary as to voting the Class B common shares represented by their ADSs. Due to these procedural steps involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of Class B common shares and Class B common shares represented by ADSs may not be voted as the holders of ADSs desire. Class B common shares represented by ADSs for which the depositary fails to receive timely voting instructions may, if requested by us, be voted at the corresponding meeting either in favor of the proposal of the board of directors or, in the absence of such a proposal, in accordance with the majority.

Our shareholders may be subject to liability for certain votes of their securities.

Because we are a limited liability corporation, our shareholders are not liable for our obligations. Shareholders are generally liable only for the payment of the shares they subscribe to. However, shareholders who have a conflict of interest with us and who do not abstain from voting at the respective shareholders' meeting may be liable for damages to us, but only if the transaction would not have been approved without such shareholders' votes. Furthermore, shareholders who willfully or negligently vote in favor of a resolution that is subsequently declared void by a court as contrary to the law or our by-laws may be held jointly and severally liable for damages to us or to other third parties, including other shareholders.

Provisions of Argentine securities laws could deter takeover attempts and have an adverse impact on the price of our shares and ADSs

Argentine securities laws contain provisions that may discourage, delay or make more difficult a change of control of Edenor, such as the requirement, upon the acquisition of a certain percentage of our capital stock, to launch a tender offer to acquire a certain percentage of our capital stock, which percentage ranges from 10% to 100% depending on several factors. These provisions may delay, defer or prevent a transaction or a change of control that might otherwise be in the best interest of our shareholders and may adversely affect the market value of our shares and ADSs. In addition, the provisions of Argentine securities laws with respect to the obligation to launch a mandatory tender offer differ in certain respects; as of the date of filing of this annual report, it is unclear whether the provisions of our bylaws, which might be more beneficial to minority shareholders under certain circumstances than the provisions of Argentine securities laws in effect as of the date hereof, would prevail over the provisions of Argentine securities laws.
