

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, inflation rates, currency exchange rates, 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 decisions 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. For example, during the Argentine economic crisis of 2001, the Argentine government froze electricity distribution margins and caused the pesification of our tariffs, which had a materially adverse effect on our business and financial condition and led us to suspend payments on our financial debt at the time.

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.

The Argentine economy remains vulnerable and any significant decline could adversely affect our 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.

The Argentine economy 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 the “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 2017, for the year ended December 31, 2016, Argentina’s real GDP decreased by 2.1% compared to the same period in 2015. 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;
- Argentina’s public debt as a percentage of GDP remains high, and the availability of long-term credit and international financing remains limited;
- 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;

- a significant number of protests or strikes could take place, as has occurred in the past, which could adversely affect various sectors of the Argentine economy;
- 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

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 the 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. The Macri administration declared the state of emergency of the national electricity system that will remain in effect until December 31, 2017. The state of emergency allows 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 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. 2/2016, the ENRE partially repealed Resolution No. 347/2012, 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. 347/2012 were 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. 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. See "Item 5-Operating and Financial Review and Prospects-Integral Tariff Revision."

- **INDEC reforms.** In light of questions raised by the International Monetary Fund (“IMF”) 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 INDEC. 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. 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 IMF. Despite these reforms, there is uncertainty as to what effect such reforms and revised data will have on the Argentine economy and public accounts.
- **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. In addition, on December 17, 2015, following the announcement of the lifting of a significant portion of exchange restrictions, the Peso depreciated approximately 36% against the U.S. Dollar. The exchange rate published by Banco Nación as of April 21, 2017 was Ps. 15.49 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, importers were offered short-term debt securities issued by Argentina to be used to repay outstanding commercial debt for the import of goods.
- **Financial Policy.** Since taking office, the Macri administration reached agreements to settle outstanding claims with a large majority of holdout creditors. See “—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.”

As of the date of this annual report, the impact that these measures and any future measures to be taken by the Macri administration will have on the Argentine economy as a whole, and the electricity sector in particular, cannot be fully anticipated. While we believe that the effect of the planned liberalization of the economy will be positive for our business by stimulating economic activity, it is not possible to predict such effect with certainty and such liberalization could also be disruptive to the economy and fail to benefit or harm our business. Since assuming office, the Macri administration reformed energy and gas sector tariffs. In addition, as of the date of this annual report, political parties opposed to the Macri administration retain a majority of the seats in the Argentine Congress, which requires the Macri administration to seek political support from the opposition for its economic proposals and creates further uncertainty as to the ability of the Macri administration to pass any measure which it may expect to implement. In addition, legislative elections will be held in October 2017. We cannot assure you the impact that these measures or any future measures taken by the Macri administration will have 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

Inflation has, in the past, 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. According to data published by the INDEC, CPI inflation rates for July, August, September, October, November and December 2016, and January, February and March 2017 were 2.0%, 0.2%, 1.1%, 2.4%, 1.6%, 1.2%, 1.3%, 2.5% and 2.4%, respectively. The wholesale price index ("WPI") increased by 34.5% in 2016. 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 by executing price support arrangements with private sector companies in several industries and markets.

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 Coeficiente 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 cause the market value of our ADSs and Class B common shares to decline.

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.

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.

In June 2016, the INDEC began publishing an official inflation rate using a new methodology for calculating the consumer price index. The official CPI inflation rate for the period from May to December 2016 was 16.95%. The CPI inflation rates for July, August, September, October, November, December 2016, and January, February and March 2017 were 2.0%, 0.2%, 1.1%, 2.4%, 1.6%, 1.2%, 1.3%, 2.5% and 2.4%, respectively. The WPI increased by 34.5% in 2016.

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 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

The prospects for Argentine companies of accessing financial markets might be limited in terms of the amount of financing available, and the conditions and cost of such financing.

In 2005 and 2010, Argentina conducted exchange offers to restructure part of its sovereign debt that had been in default since the end of 2001. As a result of these exchange offers, Argentina restructured over 92% of its eligible defaulted debt. In April 2016, the Argentine government settled U.S.\$4.2 billion outstanding principal amount of debt held by creditors who had not participated in the 2015 and 2010 restructurings.

As of the date of this annual report, litigation initiated by bondholders that have not accepted Argentina's settlement offer continues in several jurisdictions, although the size of the claims involved has decreased significantly. Although the vacatur of the *pari passu* injunctions removed a material obstacle to access to capital markets by the Argentine government, future transactions may be affected as litigation with holdout bondholders continues, which in turn could affect the Argentine government's ability to access international credit markets, and thus could have a material adverse effect on the Argentine economy and, in turn, on our business, results of operations and prospects for growth.

Fluctuations in the value of the Peso could adversely affect the Argentine economy and, 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 30% of its value with respect to the US Dollar in each of 2013 and 2014, and 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 foreign exchange restrictions. 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, 2016, the exchange rate was Ps. 15.89 to U.S.\$1.00 and the depreciation of the Peso with respect to the U.S. Dollar reached approximately 20% during 2016. 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 weakening of the Argentine economy in general.

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.

In December 2008, Law No. 26,425, was passed by the Argentine Congress unifying the Argentine pension and retirement system into a system publicly administered by the Administración Nacional de la Seguridad Social (the National Social Security Agency, or the "ANSES"), and eliminating the pension and retirement system previously administered by private managers. In accordance with the new law, private pension managers transferred all of the assets administered by them under the pension and retirement system to the ANSES. With the nationalization of Argentina's private pension funds, the Argentine government, through the ANSES, became a significant shareholder in many of the country's public companies.

As of the date of this annual report, ANSES owns shares representing 26.8% of our capital stock, and also owns shares of capital stock of our affiliates, Pampa Energía and Transener.

Beginning in April 2012, the Fernández de Kirchner administration provided for the nationalization of YPF and imposed major changes to the legal framework in which oil companies operate, principally through the enactment of Law No. 26,741 and Decree No. 1,277/2012. Additionally, in December 2012, the Fernández de Kirchner administration issued Decree No. 2,552/2012, pursuant to which it ordered the expropriation of the Predio Rural de Palermo. However, in January 2013, the Federal Civil and Commercial Chamber granted an injunction that has temporarily blocked the enforcement of Decree No. 2,552/2012. Although the decision was appealed by the Argentine government, the Supreme Court of Justice rejected such appeal and confirmed the Federal Civil and Commercial Chamber's injunction subject to a decision on the merits.

Notwithstanding the measures recently adopted by the Macri administration, we cannot assure you that other 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

During 2001 and the first half of 2002, Argentina experienced a mass withdrawal of deposits from the financial system as a result of a lack of confidence in the Argentine government's ability to repay its debt and sustain the parity between the Peso and the U.S. Dollar. This caused a liquidity crisis in the Argentine financial system, which led the Argentine government to impose exchange controls and transfer restrictions, substantially limiting the ability of companies to retain foreign currency or make payments abroad. After 2002, these restrictions, including those requiring the Central Bank's prior authorization for the transfer of funds abroad to pay principal and interest on debt obligations, were substantially eased through 2007. In addition to the foreign exchange restrictions applicable to outflows, in June 2005 the Argentine government adopted various rules and regulations that established new restrictive controls on capital inflows into Argentina, including a requirement that, for certain funds remitted into Argentina, an amount equal to 30% of the funds must be deposited into an account with a local financial institution as a U.S. Dollar deposit for a one-year period without any accrual of interest, benefit or other use as collateral for any transaction.

Through a combination of foreign exchange and tax regulations from 2011 until President Macri assumed office in 2015, the Fernández de Kirchner administration significantly curtailed access to the foreign exchange market by individuals and private-sector entities. In addition, during the last few years under the Fernández de Kirchner administration, the Central Bank exercised a *de facto* prior approval power for certain foreign exchange transactions otherwise authorized to be carried out under applicable regulations, such as dividend payments or repayment of principal of inter-company loans as well as the import of goods, by means of regulating the amount of foreign currency available to financial institutions to conduct such transactions. The number of exchange controls introduced in the past and in particular after 2011 during the Fernández de Kirchner administration gave rise to an unofficial U.S. Dollar trading market. The Peso/U.S. Dollar exchange rate in such market substantially differed from the official Peso/U.S. Dollar exchange rate. See "Item 3–Key Information–Exchange Rates" and "Item 10–Exchange Controls."

Additionally, 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 capacity 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 execution of different measures. As a result of the measures adopted, the international reserves increased to over U.S.\$ 40.0 billion as of December 31, 2016.

Notwithstanding the measures recently adopted by the Macri administration, in the future the Argentine government could impose exchange controls, transfer restrictions or restrictions on the movement of capital or take other measures in response to capital flight or a significant depreciation of the Peso, which could limit our ability to access the international capital markets and impair our ability to make interest, principal or dividend payments abroad. Such measures could lead to renewed political and social tensions and undermine the Argentine government's public finances, which could adversely affect Argentina's economy and prospects for economic growth 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.

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.

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.

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

The effects of a global or regional credit crisis and related turmoil in the global financial system may have a negative impact on our business, financial condition and results of operations, an impact that is likely to be more severe on an emerging market economy, such as Argentina. Such 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 effect of the 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, which could have a negative effect on our revenues. Economic factors such as unemployment, inflation and the availability of credit could also have a material adverse effect on demand for energy and, therefore, on our financial condition and operating results. The financial and economic situation in Argentina or 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. See "—The Argentine economy could be adversely affected by economic developments in other markets and by more general "contagion" effects."

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 in the past 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 (see "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"). 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 and Class B common shares to decline.

The Argentine economy could be adversely affected by economic developments in other markets and by more general “contagion” effects

Argentine financial and securities markets are influenced, to varying degrees, by economic and financial conditions in other markets. Argentina’s economy is vulnerable to external shocks, including those related or similar to the global economic crisis that began in 2008 and the economic and financial conditions of Argentina’s major trading partners, in particular, Brazil. Specifically, the current devaluation of the Brazilian currency and the slowdown of its economy may negatively affect the Argentine economy, and in turn, our business and results of operations. Although economic conditions can vary from country to country, investors’ perception of the events occurring in other countries have in the past substantially affected, and may continue to substantially affect capital flows and investments in securities in other countries, including Argentina. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including those in Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian devaluation of its currency in January 1999.

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. Argentina could be adversely affected by negative economic or financial developments in other 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.

The designation of “veedores” (observers) by the CNV or other regulator could adversely affect our business, financial condition and results of operations

The Capital Markets Law No. 26,831 (the “CML”) provides that the CNV may inspect any entity subject to its oversight (such as us, our controlling shareholder or any of our affiliates subject to CNV oversight). If after any inspection the CNV determines that a resolution of the board of directors of such entity violated the interests of its minority shareholders or any holder of its securities subject to the Argentine public offering regime, it may appoint a veedor (observer) with veto powers. The CNV is additionally empowered to suspend a board of directors for a period of up to 180 days, subject to limited appeals and, alternatively, a veedor may be appointed through a judicial request. Any determination by the CNV or any Argentine court that the right of our minority shareholders or holders of our securities issued in Argentina has been violated could result in the direct intervention of the CNV, including the potential suspension of our board of directors for up to 180 days, and, consequently, have an adverse effect on our business, financial condition and results of operations. In this respect, on April 21, 2014, Molinos Rio de la Plata S.A., an Argentine company whose shares are publicly-traded in Argentina, reported the judicial appointment of a veedor at the request of ANSES, one of its shareholders, for a period of six months. On November 18, 2015, the National Chamber of Appeals suspended the application of Article No. 20 until the definitive decision on the Molinos case is rendered. We cannot assure you that the CNV, or any other party, will not attempt to pursue a similar course of action with respect to us (or our controlling shareholder), which may have a negative effect on us.

Risks Relating to the Electricity Distribution Sector

The Argentine government has intervened in the electricity sector in the past, and is likely 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. 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 are 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 until December 31, 2017, and instructing the ME&M to adopt any measure the ME&M deems necessary regarding the generation, transmission and distribution segments, to adjust the quality, and guarantee the provision of, electricity.

On February 3, 2016, Resolution No. 22/16 of the ME&M established adjustments to the remuneration of generators to support the operation and maintenance of the generation plants until the regulatory measures currently under review by the Argentine government are enacted and the operation of the WEM is normalized.

On January 25, 2016, the ME&M issued Resolution No. 6/16, approving the seasonal WEM prices for each category of users for the period from February 2016 through April 2016. Such resolution readjusted the seasonal prices as required by the regulatory framework. On February 1, 2017, the Secretariat of Electric Energy (the “SEE”) published Resolution No 20-E/2017, by means of which it approved the Summer Seasonal Schedule for the WEM corresponding to the period held between February 1 and April 30, 2017. Energy prices in the spot market were set by CAMMESA which determined the price to be charged by generators for energy sold in the spot market of the WEM on an hourly basis. The WEM prices resulted in the elimination of certain energy subsidies and a substantial increase in electricity rates for individuals. On February 3, 2016, Resolution No. 22/16 of the ME&M established adjustments to the remuneration of generators to support the operation and maintenance of generations plants until new regulatory measures are adopted by the Argentine government and the operation of the WEM is normalized. As of the date of this annual report, the Argentine government has implemented a new remuneration scheme through SEE Resolution No. 19/17, which improved margins, especially for “new energy” operators.

The ME&M, issued Resolution No. 7/2016 pursuant to which it instructed the ENRE to, among others, (i) adjust the VAD using the transitional tariff regime included in the agreement that Edenor entered into with the Argentine government in February 2006 relating to the adjustment and renegotiation of the terms of the concession (the “Adjustment Agreement”), (ii) implement a social tariff regime and a reduction of such WEM prices for certain consumers, and (iii) effect a revision of the RTI by December 31, 2016. Also, Resolution No. 7/2016 derogated the PUREE and SE Resolution No. 32/2015. On February 1, 2017, the RTI process was completed and a new tariff scheme for the following five-years period was enacted.

Notwithstanding the recent measures adopted by the Macri administration, we cannot assure you that certain other 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.”

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 financial 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 has granted temporary and partial reliefs to some distribution companies, including a limited increase in distribution margins, a 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. 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 mainly lies in 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%. 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 2016 electricity demand in Argentina increased 12.1%, 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. As of the date of this annual report, the RTI process has been completed and tariffs have increased by an average of 60%, according to the category of customer as of February 2016. 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 assurances 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 any future tariff increase will not lead electricity utility 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 new investments in generation capacity during 2016, the Argentine electricity market is still operating at near full capacity and both generators and distributors may not be able to guarantee an increased supply of electricity to their customers, which could lead to a decline in the growth of such companies. 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 capacity 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 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. 32/2015 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. 347/2012 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."

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.

On February 1, 2017, 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". However, if we are not able to recover all future cost increases, 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.

Since May 2016, we were notified by several courts of the Province of Buenos Aires of certain provisional remedies 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 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, 2016, 2015 and 2014, our accrued fines and penalties totaled Ps. 3,700.0 million, Ps. 1,253.1 million and Ps. 1,102.8 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."

By means of Note No. 120,151, the ENRE established that all fines and penalties imposed by the ENRE after April 15, 2016, whether in respect of events occurring on or after such date or events occurring prior to the date thereof, but for which fines or penalties had not been imposed on us by such date, must be valued according to the VAD or KWh values in effect as of the last date of the semester or period during which the event giving rise to the penalty occurred, including any increases or adjustments applicable to our “remuneration” at such date. In addition, the Note provides that fines and penalties that fall under the purview of the Note will accrue interest as from the day on which the event giving rise to the penalty occurs, until the day in which they are paid by us.

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 correspond to the average sale price of energy charged to customers. Since the amounts set forth in the Note are 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, we had not received an answer.

In the case that the ENRE considers that the term “remuneration” under the Note includes all the amounts received, among other things government grants, the amount of the provision for penalties could increase significantly. However, we believe that such interpretation would be opposite to the terms of the Concession Agreement.

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 are still pending to be settled.

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, 10%. 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 10% 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 17.0% in 2016, 14.9% in 2015 and 14.3% in 2014. 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;
- 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 2016, 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, 2016, 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 actually 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, 2016, we had approximately 3,786 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 liability 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 will 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 2016, the devaluation of the Peso with respect to the U.S. Dollar reached approximately 20%. In each of 2016 and 2015, 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.

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, 2016, 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 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, 2016, we owed approximately Ps. 5,469.5 million to CAMMESA, (including interest). Although we submitted to CAMMESA a repayment plan in November 2015, as of the date of this annual report negotiations with CAMMESA continue with respect to a final repayment schedule. 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*").

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.\$ 176.4 million of our financial debt is represented by 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 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, approximately U.S.\$176.4 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.

We could be required by law to undertake a mandatory capital stock reduction and may in the future be required to be dissolved and liquidated.

As of December 31, 2016, our negative results exceeded 100% of our reserves and more than 50% of our capital stock, therefore, in accordance with Section 206 of the Argentine Corporations Law No. 19,550 (the “Argentine Corporations Law”), we were required to mandatorily reduce our capital stock. As of the date of this annual report, in light of the recent conclusion of the RTI process, our board of directors is currently analyzing the impact thereof on our financial position, estimating that the expected future revenues will allow us to revert this situation. If our losses for any fiscal year exceed our reserves plus 50% or more of our capital stock at the end of any such year, we fall under the purview of Section 206 of the Argentine Corporations Law and are required to mandatorily reduce our capital stock. Moreover, if our shareholders’ equity becomes negative (that is, if our total liabilities exceed our total assets) at the end of any fiscal year, we are required to dissolve and liquidate pursuant to Article 94 of the Argentine Corporations Law unless we receive a capital contribution or expect future revenues or results of operations which would result in our assets exceeding our liabilities. On April 18, 2017, our shareholders’ meeting decided not to approve the capital stock reduction at that time. However, if our quarterly negative results for the periods ended on March 31, 2017 and June 30, 2017 exceed 100% of our reserves and more than 50% of our capital stock, our board of directors will convene an extraordinary shareholder’s meeting to reconsider the capital stock reduction. A mandatory capital stock reduction can adversely affect our results of operations and financial conditions and cause the market value of our ADSs and Class B common shares to decline. See “Item 8. Financial Information-Significant Changes”).

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.

A cyber-attack could adversely affect our business, financial condition, results of operations and cash flows.

Information security 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 related to the distribution of electricity 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 cyber-attack. In the event of such an 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. A cyber-attack could adversely affect our results of operations and financial condition and cause the market value of our ADSs and Class B common shares to decline.

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. 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. 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. 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.