

Free Translation

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group,
S.A.)

Financial Statements

For December 31, 2010 and 2009

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Financial Statements December 31, 2010 and 2009

Table of Contents	Page
Management Report	1
Financial Statements:	
Balance sheets	2
Statements of income	3
Statements of changes in equity	4
Statements of cash flows	5 - 6
Notes to financial statements	7 - 22

Elektra Noreste, S.A.



Management Responsibility for Financial Reporting

The management of Elektra Noreste, S.A. is responsible for the information and representations in the Company's financial statements. The Company prepares the financial statements in accordance with accounting principles generally accepted in the United States of America based upon available facts and circumstances and management best estimates and judgments of known conditions.

The Company maintains an accounting system and related system of internal controls designed to provide reasonable assurance to Elektra's management regarding the preparation of reliable financial statements and that the financial records are accurate and Company's assets are protected. The Company's staff of internal auditors conducts periodic reviews to maintain the effectiveness of internal control procedures, corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified.

Based on our knowledge, the financial statements as of December 31, 2010, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented.

Javier Pariente
Executive Vice-president &
General Manager

Eric Morales
Chief Financial Officer
C.P.A. #1769

February 28, 2011
Panama, Republic of Panama

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Statements of Income (unaudited)

(Expressed in United States dollars)

	Notes	Three Months Ended		Twelve Months Ended	
		December 31,		December 31,	
		2010	2009	2010	2009
Revenues:					
Energy sales		\$ 101,804,131	\$ 104,940,398	\$ 443,903,930	\$ 389,177,811
Other revenues		<u>2,649,585</u>	<u>1,798,209</u>	<u>9,036,878</u>	<u>7,237,064</u>
Total revenues		<u>104,453,716</u>	<u>106,738,607</u>	<u>452,940,808</u>	<u>396,414,875</u>
Purchase of energy and transmission charges, net	6	<u>80,881,852</u>	<u>84,182,329</u>	<u>359,211,739</u>	<u>308,972,678</u>
Gross distribution margin		<u>23,571,864</u>	<u>22,556,278</u>	<u>93,729,069</u>	<u>87,442,197</u>
Operating expenses:					
Labor and other personnel		2,212,301	2,291,465	8,625,323	8,829,960
Severance expenses		157,893	112,613	583,346	381,137
Provision for doubtful accounts, net		278,876	899,325	1,004,485	2,504,437
Repair and maintenance		904,695	679,387	2,926,311	2,887,016
Professional services		2,983,411	2,809,058	12,496,355	10,640,719
Depreciation and amortization		4,009,075	3,720,659	14,789,187	14,520,999
Management fee		-	449,719	-	2,067,370
Administrative and other		2,409,228	2,318,856	9,342,197	8,318,027
Loss on disposal of fixed asset		<u>106,238</u>	<u>52,845</u>	<u>348,056</u>	<u>328,306</u>
Total operating expenses		<u>13,061,717</u>	<u>13,333,927</u>	<u>50,115,260</u>	<u>50,477,971</u>
Operating income		<u>10,510,147</u>	<u>9,222,351</u>	<u>43,613,809</u>	<u>36,964,226</u>
Other income (expense):					
Other income		177,037	50,680	469,031	585,920
Interest income		326,566	356,815	1,089,288	1,348,015
Interest expense		<u>(2,131,777)</u>	<u>(2,226,504)</u>	<u>(8,731,186)</u>	<u>(8,979,219)</u>
Total other expenses		<u>(1,628,174)</u>	<u>(1,819,009)</u>	<u>(7,172,867)</u>	<u>(7,045,284)</u>
Income before income taxes		<u>8,881,973</u>	<u>7,403,342</u>	<u>36,440,942</u>	<u>29,918,942</u>
Income taxes:					
Current	4	1,058,251	357,150	16,212,674	6,201,235
Deferred expense (benefit)		<u>1,810,080</u>	<u>1,880,281</u>	<u>(5,272,665)</u>	<u>2,838,190</u>
Total income taxes		<u>2,868,331</u>	<u>2,237,431</u>	<u>10,940,009</u>	<u>9,039,425</u>
Net income		<u>\$ 6,013,642</u>	<u>\$ 5,165,911</u>	<u>\$ 25,500,933</u>	<u>\$ 20,879,517</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Statements of Changes in Equity (unaudited)**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

	Common Stock	Treasury Stock	Retained Earnings	Total Equity
Balance as of January 1, 2009	\$ 106,642,962	\$ (544,087)	\$ 17,554,672	\$ 123,653,547
Net income	-	-	20,879,517	20,879,517
Dividends paid	-	-	(12,260,000)	(12,260,000)
Accredited complementary dividend tax	-	-	490,400	490,400
Complementary dividend tax paid	<u>-</u>	<u>-</u>	<u>(874,936)</u>	<u>(874,936)</u>
Balance as of December 31, 2009	\$ 106,642,962	\$ (544,087)	\$ 25,789,653	\$ 131,888,528
Net income	-	-	25,500,933	25,500,933
Dividends paid	-	-	(26,174,189)	(26,174,189)
Accredited complementary dividend tax	-	-	924,308	924,308
Complementary dividend tax paid	<u>-</u>	<u>-</u>	<u>(538,823)</u>	<u>(538,823)</u>
Balance as of December 31, 2010	<u>\$ 106,642,962</u>	<u>\$ (544,087)</u>	<u>\$ 25,501,882</u>	<u>\$ 131,600,757</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Statements of Cash Flows (unaudited)**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

	2010	2009
Cash flows from operating activities:		
Net income	\$ 25,500,933	\$ 20,879,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,789,187	14,520,999
Loss on disposal of fixed asset	348,056	328,306
Provision for doubtful accounts	1,004,485	2,504,437
Discount amortization of senior notes	41,949	38,897
Amortization of debt issuance costs	155,020	140,949
Provision for severance payments net of contribution to severance fund	64,002	(55,983)
Deferred income tax	(5,272,665)	2,838,190
Fuel component adjustment	17,689,000	(9,978,000)
Change in operating assets and liabilities:		
Accounts receivable	3,123,675	2,546,902
Inventory	(1,373,844)	1,297,250
Other assets	684,909	(346,914)
Trade accounts payable and other liabilities	(3,140,023)	11,666,967
Income tax	13,042,043	(6,736,880)
Seniority premium	(185,089)	(109,105)
Net cash provided by operating activities	<u>66,471,638</u>	<u>39,535,532</u>
Cash flows from investing activities:		
Acquisition of fixed assets	(24,848,931)	(21,507,200)
Proceeds from sales of fixed assets	<u>237,925</u>	<u>154,921</u>
Net cash used in investing activities	<u>(24,611,006)</u>	<u>(21,352,279)</u>

(Continued)

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Statements of Cash Flows (unaudited)**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

	2010	2009
Cash flows from financing activities:		
Repayment from short-term debt	-	(25,000,000)
Accredited complementary dividend tax	924,308	490,400
Complementary dividend tax paid	(538,823)	(874,936)
Dividends paid	<u>(26,174,189)</u>	<u>(12,260,000)</u>
Net cash used in financing activities	<u>(25,788,704)</u>	<u>(37,644,536)</u>
Cash and cash equivalents:		
Net decrease in cash	16,071,928	(19,461,283)
Beginning of period	<u>5,912,571</u>	<u>25,373,854</u>
End of period	<u>\$ 21,984,499</u>	<u>\$ 5,912,571</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	<u>\$ 8,353,394</u>	<u>\$ 8,752,868</u>
Income taxes	<u>\$ 3,170,632</u>	<u>\$ 12,801,625</u>

(Concluded)

See accompanying notes to financial statements.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

1. Nature of Business and Basis of Presentation

Nature of Business

Elektra Noreste, S.A. (the "Company") is a corporation formed as a result of the privatization of the Institute for Hydraulic Resources and Electricity (Instituto de Recursos Hidráulicos y Electrificación ("IRHE") in Spanish). The Company was incorporated by means of Public Deed No.143, dated January 19, 1998, and began operations in January 1998. The authorized capital stock of the Company consists of fifty million common shares without par value. At present, Panama Distribution Group, S.A. ("PDG") owns 51% of the authorized, issued and outstanding shares of common stock of the Company, while the State of Panama and former employees of IRHE own 48.25% and 0.43%, respectively. The remaining amount of shares is held as treasury stock.

The activities of the Company include the purchase of energy in blocks and its transportation through the distribution network to customers. The Company performs voltage transformation, delivers the power to end consumers, and performs meter reading, billing and collections. The Company is also responsible for installing, operating, and maintaining public lighting in the concession zone (as defined in the following paragraph), according to the lighting levels and criteria established by the Public Services Authority (Autoridad Nacional de los Servicios Públicos ("ASEP") in Spanish). Additionally, the Company is authorized to perform power generation activities up to a limit of 15% of the maximum demand and energy in the concession zone.

According to the concession contract described in Note 7, the Company has exclusivity for the distribution and commercialization of electric power to customers located in the geographical areas of Panama East, Colon, Panama Bay, the Comarca of San Blas and Darien. In regards to "large customers," defined by Law 6, dated February 3, 1997, as customers with a maximum demand over 100 KW per site that have the option to purchase energy directly from other agents of the electricity market, the Company has exclusivity for only the distribution of electricity.

Basis of Presentation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

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

2. Significant Accounting Policies

A summary of the significant accounting policies used in the preparation of the accompanying financial statements follows:

- a. Cash and Cash Equivalents* - All highly liquid investments with original maturities of three months or less are classified as cash equivalents.
- b. Accounts Receivable* - Accounts receivable are recorded at the invoiced amount and bear interest on past due amounts. The interest is recognized up until customer account is closed or terminated, which occurred approximately 60 days after service has been suspended.

It is the Company's policy to review outstanding accounts receivable on a monthly basis and adjust the corresponding allowance for doubtful accounts.

The Company establishes a provision for losses if it determines that amounts may not be collectible. The Company estimates the allowance based on the length of time the receivables are past due, conditions affecting

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

its customers, and historical experience. Account balances are written off after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

- c. Fuel Component Adjustment* - The regulated system under which the Company operates provides that any excess or deficiency between the estimated energy costs included in the tariff and the actual costs incurred by the Company be included as a compensation adjustment to be recovered from or refunded to customers in the next tariff charges semi annual adjustment. Any excess in energy costs charged to customers is accrued in the accounts payable on the balance sheet and leads to a reduction in the next tariff charges adjustment. Conversely, any deficit in energy cost charged to customers is accrued in the account receivable on the balance sheet and leads to an increase in the next tariff charges adjustment to be recovered from customers.
- d. Inventory* - Inventory consists primarily of materials and supplies for the Company's consumption. Tools and spare parts are considered part of the inventory but are classified as non-current assets. Inventory is accounted for at the lower of cost or market. Cost is determined using the average cost method.
- e. Property, Plant, and Equipment* - Upon the Company's formation, the IRHE transferred a portion of its productive assets stated at historical cost net of the associated accumulated depreciation. New asset acquisitions and construction in progress are recorded at their original cost which includes materials, contractor costs, construction overhead and financing costs. The Company reports property, plant and equipment on the balance sheet net of accumulated depreciation.

Costs associated with improvements made to property, plant and equipment are capitalized as well as major disbursements for renewals. Costs associated with repairs and minor replacements are expensed as incurred. Major maintenance costs that do not extend the useful life by improving the conditions of the asset to the state it held when it was originally purchased are also expensed. The Company also capitalizes interest during construction in accordance with the Accounting Standard Codification ("ASC") 835 "Interest", issued by the Financial Accounting Standard Board ("FASB").

Long-lived assets are reviewed for impairment whenever events or changes occur if circumstances indicate the carrying amount of an asset may not be recoverable through operations, in accordance with ASC 360, Property, Plant and Equipment (ASC 360-10-35) "Impairment or Disposal of Long-Lived Assets". If the carrying amount of the asset exceeds the expected undiscounted future cash flows generated by the asset or group of assets, an impairment loss is recognized and the asset is written down to its fair value. Fair value can be determined by the use of quoted market prices, appraisals or other valuation techniques, such as expected discounted future cash flows. Management's judgment is involved in both deciding whether testing for recoverability is necessary and estimating undiscounted cash flows. As of December 31, 2010 and 2009, no impairments of long-lived assets were identified.

Gains or losses on property, plant and equipment are recognized when the assets are retired or otherwise disposed of. The difference between the net book value of the property and any proceeds received for the property is recorded as a gain or loss in the Statements of Income.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

Depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives used for each fixed asset category are shown below:

	Estimated Useful Life (in years)
Poles, towers and accessories	30
Electric transformers	30
Underground conductors and ducts	30
Overhead conductors and accessories	25
Substation equipment	30
Consumer meters	20 to 30
Buildings and improvements	35
Public lighting equipment	25
Transportation equipment	8
Communications equipment	8 to 25
Office furniture and equipment	5 to 20

f. Debt Issuance Costs - The Company defers all costs related to the issuance of long-term debt. These costs include borrowers' commissions and other costs such as legal, registration and stamp costs. Debt issuance costs are amortized over the term of the debt instrument using the effective interest method.

g. Purchased Energy and Transmission Charges - The Company records the annual cost of purchased energy obtained under long-term and short-term contracts in the Statements of Income. These contracts are considered executory in nature, since they do not convey to the Company the right to use the related property, plant or equipment. The Company also engages in short-term hourly purchases in the wholesale market, which is administered by the National Dispatch Center (Centro Nacional de Despacho ("CND") in Spanish).

The Company also pays a regulated tariff to Empresa de Transmisión Eléctrica, S.A. ("ETESA"), a company fully-owned by the Panamanian Government for connecting to and for use of the transmission system. ETESA is responsible for expanding and upgrading the interconnecting transmission system to meet the requirements of demand growth and system stability. The current transmission tariff is due to remain in force until June 30, 2013, thereafter the tariff would be revised by ETESA and the ASEP for a four-year period.

h. Income Taxes - Income taxes are accounted for under the asset-liability method as prescribed by ASC 740, "Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Statement of Income in the period that includes the enactment date.

i. Customer Deposits - The Company requires customers to provide cash deposits as a guarantee of payment for energy consumed, according to the legislation set forth by the ASEP. The ASEP has issued resolutions JD-219 (March 31, 1998) and JD-761 (June 8, 1998) which provide that in those cases where the customer has established a good payment record, defined as no more than three late payments in a twelve-month period, the deposit shall be returned.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

j. Contingencies - In the normal course of business, the Company is subject to various regulatory actions, proceedings, and lawsuits related to tax or other legal matters. The Company establishes reserves for these potential contingencies when they are deemed probable and reasonably estimable. For further discussion of contingencies, see Note 7.

k. Seniority Premium and Severance Fund - According to the Panamanian Labor Code, upon the termination of any employee contracted for an indefinite period of time, regardless the causes, the employee is entitled to a seniority premium at the rate of one week's salary for every year of work, since they were first employed. Seniority premiums represent 1.92% of total salaries paid.

Law 44 of 1995 introduced reforms to the Panamanian Labor Code by requiring all employers to make a cash contribution to a severance fund that would cover the payment to employees of a seniority premium and severance for unjustified dismissal. The Company maintains a trust fund through an authorized private entity, Progreso, S. A., who acts as trustee to secure the severance fund liability. This trust fund is reported in the Balance Sheets under "Severance fund".

l. Related Parties - As a result of the restructuring of the electricity sector of Panama, three distribution companies, four generating companies and one transmission company were formed. The State of Panama retains an approximate fifty-one percent (51%) interest in the hydraulic generating companies, a forty-nine percent (49%) interest in the thermal generating company and distribution companies, and a one hundred percent (100%) interest in the transmission company. The State of Panama retained 48.25% of the Company's stock and 0.43% is owned by former IRHE employees.

In the normal course of business, the Company purchases electricity from the generating and other distribution companies, sells energy to governmental institutions and makes payments to the transmission company. The Company recognizes these activities as related party transactions.

m. Utility Regulation - The Company is subject to regulation by the ASEP. This agency regulates and makes the final determination regarding the rates the Company charges to its customers. The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for electric utilities by the ASEP.

The Company is subject to the provisions of ASC 980, "Regulated Operations". Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and (liabilities) reflected in the Company's balance sheets at December 31, 2010 and 2009 relates to the following:

	<u>2010</u>	<u>2009</u>	<u>Note</u>
Fuel component adjustment - (liability) asset	\$ (1,903.649)	\$ 15,785.351	(See fuel component adjustment in Note 6)
Deferred income tax	<u>571.095</u>	<u>(4,735.605)</u>	See Note 4
	<u>\$ (1,332.554)</u>	<u>\$ 11,049.746</u>	

In the event that a portion of the Company's operations is no longer subject to the provisions of ASC 980, the

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets, including Property, plant and equipment exists and, if impaired, write down the assets to their fair value.

n. Revenue Recognition

Energy Sales

The Company recognizes its revenues for energy sales when service is delivered to and consumed by customers. The Company bills customers based on meter readings that are performed on a systematic basis throughout the month. The applicable rates used to bill the customers include energy cost and distribution components. The energy cost component operates as a pass-through for the energy purchased and transmission charges while the distribution components in the tariff are set by the ASEP to allow distributors to recover the cost of operating, maintenance, administration and commercial expenses, depreciation, standard energy losses and also to obtain a fair return on their investment. The energy cost component is adjusted every six months to reflect fluctuations in energy costs and the distribution components are adjusted based on the consumer price index.

The Company recognizes revenue for energy sales that have not yet been billed, but where electricity has been consumed by customers. This revenue is recorded as unbilled revenue within the trade receivables on the balance sheet and is calculated based on actual daily average energy consumption and applicable rates to the customers of the Company.

Other Revenues

The Company recognizes connection and reconnection charges, pole rentals, and wheeling charges as service is rendered. These charges are included in other operating revenue in the Statements of Income.

- o. Use of Estimates*** - The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and assumptions used are based upon management's evaluation of the relevant facts and judgments. Actual results could differ from those estimates. The most significant estimates include but are not limited to, the useful lives for depreciation and amortization, allowances for doubtful accounts receivable, estimates of future cash flows associated with asset impairments, loss contingencies, collection or reimbursement of the fuel component adjustment account and estimated unbilled revenue.
- p. Intangible, net*** - The Company's intangible assets consists of software licenses which are recorded at historical cost. The Company amortizes its intangible assets using the straight-line method until 15-years estimated useful lives. Intangible assets are reviewed annually to determine if any adverse conditions exist or a change in circumstances has occurred that would required a change in the remaining useful lives.
- q. Concentration of Credit Risk*** - The Company has exclusivity for the distribution and marketing of electric power to customers located in its concession zone. The Company does not believe that significant risk of loss from a concentration of credit risk exists given the large number of customers that comprise its customer base and their geographical dispersion. The Company also believes that its potential credit risk is adequately covered by the allowance for doubtful accounts.
- r. Environmental Matters*** - The Company is subject to a broad range of environmental, health and safety laws and regulations. In July 1998, the Panamanian Government enacted environmental legislation creating an

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

environmental protection agency (Autoridad Nacional del Ambiente (“ANAM”) in Spanish) and imposing new environmental standards affecting the Company’s operations. Failure to comply with these applicable environmental standards, stricter laws and regulations may require additional investments or may adversely affect the Company’s financial results.

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on current law.

Established accruals are adjusted periodically due to new assessments and remediation efforts or as additional technical and legal information become available.

Environmental costs are capitalized if the costs extend the life of the property, increase its capacity and mitigate or prevent contamination from future operations. Costs related to environmental contamination treatment and clean-up are charged to expense.

- s. ***Application of Recent Accounting Pronouncements*** - The Company adopted, or will adopt, the recent accounting standards listed below, if applicable, on their respective effective dates.

In December 2009, the FASB issued the Accounting Standards Update (“ASU”) No. 2009-17, “Consolidation (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” effective January 1, 2010. ASU No. 2009-17 eliminates the existing quantitative analysis requirement and added new qualitative factors to determine whether consolidation is required. The new qualitative factors are applied on a quarterly basis to interests in variable interest entities. Under the new guidance, the holder of the interest with the power to direct the most significant activities of the entity and the right to receive benefits or absorb losses significant to the entity would consolidate. The new guidance retained the existing provision that allows entities created before December 31, 2003 to be scoped out from a consolidation assessment if exhaustive efforts are taken and there is insufficient information to determine the primary beneficiary. The adoption of ASU No. 2009-17 had no impact on the Company’s financial statements.

In January 2010, the FASB issued the Accounting Standards Update (“ASU”) No. 2010-06 “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements”. This Update requires disclosures regarding (1) significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and (2) fair value measurement inputs and valuation techniques. Furthermore, ASU No. 2010-06 requires presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3), beginning in the first quarter of 2011. The adoption of ASU No. 2010-06 had no impact on the Company’s financial statements.

In February 2010, the FASB issued the Accounting Standards Update (“ASU”) No. 2010-09 “Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements”. ASU No. 2010-09 does not significantly change the prior accounting for subsequent events but eliminates the requirement to disclose the date through which an SEC filer has evaluated subsequent events and the basis for that date. The adoption of ASU No. 2010-09 had no impact on the Company’s financial statements.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

- t. Reclassifications* - Certain amounts in the financial statements for the year ended December 31, 2009 have been reclassified in order to conform with the presentation of the financial statements for the year ended December 31, 2010, as follow:

	2009		
	Previously reported	Reclassification	Balance
Balance Sheet			
As of December 31			
Property, plant and equipment	254,295,944	(6,184,281)	248,111,663
Intangibles, net	0	6,184,281	6,184,281

3. Accounts Receivable – Trade and other

At December 31, 2010 and 2009, accounts receivable – trade and other, are as follows:

	December 31, 2010	December 31, 2009
Customers	\$ 43,484,564	\$ 47,661,966
Government and municipal entities	<u>7,662,017</u>	<u>6,704,285</u>
	51,146,581	54,366,251
Unbilled revenue	7,802,620	7,452,881
Government subsidy	3,794,450	6,860,043
Other	<u>3,833,619</u>	<u>2,591,758</u>
	66,577,270	71,270,933
Allowance for doubtful accounts	<u>(8,408,890)</u>	<u>(8,974,393)</u>
Total	<u>\$ 58,168,380</u>	<u>\$ 62,296,540</u>

During the years ended December 31, 2010 and 2009, the Company charged off the amounts of US\$1,761,816 and US\$2,961,581 against the allowance for doubtful accounts and recovered from previous write-off balances the amounts of US\$191,828 and US\$221,131, respectively.

4. Income Tax

The provision for income tax is determined based on book income before income taxes, adjusted for any non-taxable income and non-deductible expenses. The statutory income tax rate is 30%. Deferred income tax is recognized for the effects of all temporary differences between the book and tax basis of assets and liabilities. A valuation reserve is recorded to reduce the value of deferred tax assets when it is more likely than not that tax benefits will not be

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

totally realized.

The difference between the provision for income tax for the year ended December 31, 2010 and 2009, and the income tax calculated using the enacted statutory corporate tax rate of 30% for income before income tax reported in the financial statements is attributable to the following:

	2010	2009
Income tax:		
Computed at expected statutory rate	\$ 10,932,283	\$ 8,975,683
Decrease in income tax due to non-taxable income	(29,046)	(49,421)
Increase in income tax due to non-deductible expenses	<u>36,772</u>	<u>113,163</u>
Total income tax	<u>\$ 10,940,009</u>	<u>\$ 9,039,425</u>

Deferred income tax assets and liabilities recognized on temporary differences that will be reversed in future periods, are as follows:

	2010	2009
Current deferred income tax assets (liability):		
Provision for doubtful accounts	\$ 758,740	\$ 759,948
Fuel component adjustment	571,095	-
Other	<u>256,907</u>	<u>264,244</u>
Total deferred income tax assets	<u>1,586,742</u>	<u>1,024,192</u>
Current deferred income tax liability - fuel component adjustment	<u>-</u>	<u>(4,735,605)</u>
Current deferred income tax assets (liability), net	<u>\$ 1,586,742</u>	<u>\$ (3,711,413)</u>
	2010	2009
Non-current deferred income tax assets-		
Provision for contingencies	\$ 51,933	\$ 63,091
Non-current deferred income tax liabilities:		
Severance fund	(151,070)	-
Depreciation expense	<u>(2,656,438)</u>	<u>(2,793,176)</u>
Non-current deferred income tax liabilities, net	<u>\$ (2,755,575)</u>	<u>\$ (2,730,085)</u>

In accordance with tax regulations, the income tax returns of companies in Panama are open for examination by the tax authorities for the last three years. Years starting with 2007 are subject to examination by tax authorities, although no examination is currently scheduled or in process. Those prior to 2007 are considered closed years. Companies are also subject to examination by the Panamanian tax authorities regarding compliance with stamp tax regulations.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

Pursuant to ASC 740, "Income Taxes", the Company is required to recognize the financial statement effects of tax positions if they meet a "more-likely-than-not" threshold. In evaluating items relative to this threshold, the Company must assess whether each tax position will be sustained based solely on its technical merits assuming examination by a taxing authority. The interpretation requires the Company to establish liabilities to reflect the portion of those positions that cannot be concluded as "more likely than not" of being realized upon ultimate settlement. These are referred to as liabilities for unrecognized tax benefits under ASC 740. The Company identified and evaluated any potential uncertain tax positions and concluded that there are no uncertain tax positions requiring recognition in the financial statements. Management expects the tax authorities to allow these positions when and if examined and has a high confidence level in the technical merits of these positions. Accordingly, Management expects the full amount of the tax position to be ultimately realized in the financial statements.

Investment Tax Credit

During 2001, the Company received an investment tax credit of US\$13,673,745 which was granted by the Panamanian Government under an incentive law that promoted investments in infrastructure to enhance the energy distribution network. The tax credit can be used as a reduction of up to 25% of the income tax incurred in any given year, until 100% of the amount pending to be realized in future years is consumed. The Company had been using the tax credit during the course of these years. At December 31, 2008 the remaining balance of US\$798,292 was fully utilized.

Due to the benefit received, the Company is not allowed to deduct for tax purposes, the depreciation on US\$13,673,745 of investments in infrastructure. The tax effect of this is US\$4,102,123.

5. Debt

The Company has available revolving credit lines with The Bank of Nova Scotia, Banco General, S. A., HSBC Bank (Panama), S.A., Banco Panamá, S.A. and Banco Nacional de Panamá with an aggregated credit line of US\$102,500,000 in 2010 and US\$100,000,000 in 2009, and annual interest rates ranging between 1 to 6 months LIBOR plus 2.00% and 3.75%. These unsecured credit facilities are available with a maximum term of up to one year. Floor rates margins between 3.50% and 3.85% exist for all the revolving agreements. The Company uses these facilities as needed for working capital and other needs. The Company had no outstanding debt under these credit facilities neither as at December 31, 2010 nor December 31, 2009

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

At December 31, 2010 and 2009, the balance of the long-term notes is as follows:

Long-term Notes

	December 31, 2010	December 31, 2009
Long-Term Notes		
Senior Notes	\$ 100,000,000	\$ 100,000,000
Corporate Bonds	20,000,000	20,000,000
Less:		
Senior notes discount	<u>(697,846)</u>	<u>(739,795)</u>
Total Long-term debt	<u>\$ 119,302,154</u>	<u>\$ 119,260,205</u>

The Company has notes payable under a senior debt agreement (“Senior Notes”) totaling US\$100,000,000 which is recorded at US\$99,302,154, net of US\$697,846 unamortized discount at December 31, 2010. The notes have a fixed interest rate of 7.6%, payable semiannually, and mature in 2021. Principal payment is due upon maturity. The notes maintain a senior credit position and are unsecured. The Company may redeem the Senior Notes, in whole or in part, at any time prior to their maturity thereof upon satisfaction of certain conditions including, payment of a specified make-whole premium. Notes’ covenants include debt coverage ratios and other provisions.

On October 20, 2008, in a public offering, the Company submitted a US\$40,000,000 aggregate principal amount of unsecured and unsubordinated corporate bonds (“Bonds”) due October 20, 2018. On such date, US\$20,000,000 of this corporate bond offering was subscribed and issued with Banco General. The bonds rank pari passu among equal in right of payment with all other unsecured and unsubordinated obligations. The bonds will bear interest at LIBOR plus 2.375% per annum, payable on a quarterly basis. Principal is due upon maturity. The proceeds from the offering of the bonds will be used to fund current and future capital expenditures and for general corporate purposes. The bonds are subject to additional terms and conditions which are customary for this transaction. Bonds covenants include debt coverage ratios and other provisions. The Company may redeem the Bonds, in whole or in part, at the third anniversary from the date of the offer.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

6. Purchase of Energy and Transmission Charges, Net

The Company recorded purchase of energy and transmission charges as follows:

	Three months ended December 31,		Twelve months ended December 31, December 31,	
	2010	2009	2010	2009
Purchase of energy	\$ 84,412,597	\$ 86,132,482	\$332,095,316	\$308,612,567
Transmission charges	2,086,255	3,108,847	9,427,423	10,338,111
Fuel component adjustment	<u>(5,617,000)</u>	<u>(5,059,000)</u>	<u>17,689,000</u>	<u>(9,978,000)</u>
Total purchase of energy and transmission charges, net	<u>\$ 80,881,852</u>	<u>\$ 84,182,329</u>	<u>\$359,211,739</u>	<u>\$308,972,678</u>

Fuel Component Adjustment

Changes in the under/over collection of these energy costs are reflected under net energy purchased and transmission costs in the Statements of Income. The cumulative amount receivable/payable is presented as a fuel component adjustment receivable/payable on the balance sheets until these amounts are billed or reimbursed to customers. The fuel component adjustment includes six months with actual fuel price information, plus six months of estimated fuel price information.

For the last several years, the fuel component adjustment has not been fully passed through to distribution company customers in the form of a tariff increase; the amount not billed to customers has been subsidized by the State of Panama. As of December 31, 2010 and 2009, the Government Subsidy-accounts receivable amounted to US\$3,794,450 and US\$6,860,043, respectively, see Note 3.

At December 31, 2010, a net payable balance of US\$1,903,649 (a receivable of US\$15,785,351 in 2009) was determined as a consequence of the variance resulting from the actual generation and transmission revenues and the actual cost of energy purchased. The balance is comprised of payables of US\$7,105,000, accumulated during the first semester of 2010 to be reimbursed to customers in the first semester of 2011 and receivables of US\$5,201,351 accumulated during the second semester of 2010 to be recovered from customers during the year 2011.

7. Commitments and Contingencies

As result of issues generated from the ordinary course of business, the Company is or can be involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies. The ultimate outcome of these proceedings is not expected to have a material impact on the Company's financial position, result of operations or liquidity. At December 31, 2010 and 2009, the Company had total reserves for loss contingencies in the amount of US\$173,110 and US\$210,304 respectively; these reserves are reported in the Balance Sheets in "Reserves for contingencies". Following are the most representative matters:

Litigations

The ASEP through Resolution JD-5863, dated February 17, 2006 approved Title IV of the Distribution and Commercialization Regimen enacted from July 2006 through June 2010, which contains a provision on its article number 22, requiring that excess earnings considered above a reasonable margin of the company's Maximum

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

Allowed Income at the end of the July 2006 - June 2010 tariff period will cause an adjustment by reducing the approved Maximum Allowed Income to be applied in the July 2010 - June 2014 period. However and even though the procedure to calculate and adjust an unreasonable excess has yet to be defined by the regulatory body, the Company's management position is that as of December 31, 2010 there is no contingency loss to be recorded in the Financial Statements as a consequence of this particular provision under the above mentioned resolution. This conclusion is based on: i) a final outcome still in progress at the Supreme Court related to the appeal of this article filed in the Supreme Court by another power distribution company; ii) in case the regulatory entity approves a resolution to adjust any unreasonable excess, the Company has the right to file an appeal in the Supreme Court which is the independent body and final instance that will decide on this particular matter; and iii) there is no written nor approved procedure to calculate and adjust what could be deemed by the regulatory body as an unreasonable excess, ergo, any calculation will be highly subjective. In spite of the above, the Resolution AN-3574-Elec dated June 25, 2010 that approved the Maximum Allowed Income for the July 2010 - June 2014 tariff period has no adjustment related to the previous, July 2006 - June 2010, tariff period.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

Commitments

As of December 31, 2010, the Company had energy and long-term firm capacity purchase contracts with the following generation companies:

<u>Company</u>	<u>MW(Monthly)</u>	<u>Begins</u>	<u>Ends</u>
Sistema de Generación, S.A.	as request	July 1, 2010	June 30, 2020
AES Panamá - Estí	48.72	November 20, 2003	November 20, 2013
Inversiones y Desarrollos Balboa	24.9	August 4, 2008	December 31, 2011
Empresa de Generación E. Fortuna	80	January 1, 2009	December 31, 2012
Termica del Caribe	2.85	March 1, 2009	June 30, 2014
Generadora del Atlántico	30	June 1, 2009	June 30, 2014
Energía y Servicios de Panamá, S.A.	0.96	July 1, 2009	June 30, 2014
Empresa de Generación E. Fortuna	49.3	January 1, 2010	December 31, 2011
Pedregal Power Co.	12.7	January 1, 2010	December 31, 2011
Autoridad del Canal de Panamá	15.8; 7.5	January 1, 2010	December 31, 2011
Bahía Las Minas	108	January 1, 2010	December 31, 2018
Panam Generating	20	January 1, 2010	December 31, 2019
Paso Ancho Hidro-Power	4	October 5, 2010	October 4, 2018
Autoridad del Canal de Panamá	27	January 1, 2011	December 31, 2011
Autoridad del Canal de Panamá (Pot. E	16.2	January 1, 2011	December 31, 2011
Semper Group	22.5	January 1, 2011	December 31, 2018
Panam Generating	60	January 1, 2011	December 31, 2020
AES Panamá	39	January 1, 2012	December 31, 2012
AES Panamá	23	January 1, 2013	December 31, 2021
Energía y Servicios de Panamá, S.A.	1.49; 1.15; 9.31	January 1, 2012	December 31, 2014
Empresa de Generación E. Fortuna	1.2; 0.92; 7.5	January 1, 2012	December 31, 2014
Generadora del Atlántico	0.5; 0.38; 3.12	January 1, 2012	December 31, 2014
Autoridad del Canal de Panamá	3.6; 2.77; 22.5	January 1, 2012	December 31, 2014
Empresa de Generación E. Fortuna	120	January 1, 2013	December 31, 2018
Empresa de Generación E. Fortuna	8.05	January 1, 2013	December 31, 2022
AES Panamá	9.43	January 1, 2013	December 31, 2022
Hidro Caisan	5.09	January 1, 2013	December 31, 2022
Electron Investment	10.35	January 1, 2013	December 31, 2022
Alternegy	18.4	January 1, 2013	December 31, 2022
Bontex	4.6	January 1, 2013	December 31, 2022
Bahía Las Minas	108	January 1, 2019	December 31, 2023

In accordance with the 1997 Electricity Law, the Company enters into long-term power purchase agreements with generation companies that cover most of its regulated customers' contributions to the total peak customer demand of electricity and work towards limiting any associated energy costs. Historically, the Company contracts annually for approximately 98% to 79% of its total energy requirements via purchase agreements on the contract market. For the years ended December 31, 2010 and 2009, the Company purchased approximately 98% for both years, of its total energy requirements via power purchase agreements on the contract market. These purchase agreements include both a fixed charge based on energy capacity requirements and a variable charge based on fuel cost. Based on changes in the Electricity Law, as of August 2009 the Transmission Company (ETESA) is the responsible in preparing the bid processes for energy purchase on behalf the distribution companies. Offers are received, evaluated and awarded by ETESA and then assigned to each distribution company based on their requirements. Distribution companies are obligated to signed contracts based on said awarded offers. The aggregate amount of future payments

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements**For the twelve months ended December 31, 2010 and 2009**

(Expressed in United States dollars)

required under such unconditional purchase obligations, is as follows:

Year	Payment Obligation
2011	\$ 92,042,791
2012	77,596,195
2013	91,693,375
2014	90,080,093
Thereafter	<u>597,954,178</u>
Total	<u>\$ 949,366,632</u>

As of December 31, 2010 and 2009, the Company has expensed the amount of US\$86,850,787 and US\$63,872,987 respectively on such unconditional purchase obligations, recorded under Purchase of energy and transmission charges, net on the Statements of Income.

The Company and the workers' union every four years negotiate a Labor Collective Agreement. The current Agreement is effective as of February 2008. These agreements do not maintain or consider additional material commitments besides those established in the labor law.

Operating Leases

The Company has entered into a seven year non-cancelable lease agreement which will provide for the use of office and operating facilities. As of December 31, 2010 the future minimum rental payments required under this operating lease with initial or remaining non-cancelable lease terms in excess of one year are:

Year:	Amount:
2011	\$ 497,453
2012	512,376
2013	527,748
2014	<u>177,641</u>
Total minimum payments required	<u>\$ 1,715,218</u>

As of December 31, 2010 and 2009 the total rental expense for all operating leases was US\$1,707,014 and US\$1,608,818 respectively.

Guarantees

The Company has provided limited guarantees to generation companies in order to provide for credit assurance and performance obligations under the power purchase agreements. These guarantees are not recognized on the balance sheets, because the Company believes that it will be able to perform under these contracts and that is not probable that payments will be required. The guaranteed amounts are limited to a month's estimate of energy capacity and associated energy consumption and are established for a twelve-month period with automatic renewals as long as the power purchase agreement is in place. The aggregate guarantee amount for the performance obligation is US\$33,566,722. The Company has also issued a guarantee in favor of the ASEP for US\$8,000,000 in compliance with clause 53 of the Concession Contract.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

The Company has several standby letters of credit for US\$2,214,192 in favor of ETESA guaranteeing the payment of transmission costs and energy purchases in the energy exchange market.

Concession Contract

The Company has exclusive rights to install, own and operate an energy distribution network, and to supply energy to end customers other than large customers, currently defined as those with peak demand on a site-by-site basis of over 100kW. Large customers can choose to buy energy directly from generation companies or from the spot market.

The Company's concession contract has a 15-year term and expires in October 2013. One year prior to the expiration of the concession period, the ASEP will hold a competitive tender offer for the sale of 51% ownership share currently held by Panama Distribution Group, S.A., and who owns the right to set the asking price for the tender (by making its own bid) and will only be required to sell its share of the Company if a higher offer is made, in which case, Panama Distribution Group, S.A. will be entitled to retain the sale proceeds. If no higher offer is made, Panama Distribution Group, S.A. will retain its ownership for another 15-year term, subject to the same renewal procedure thereafter with no requirement to make any payment to the Panamanian Government.

The concession contract establishes provisions related to the Concessionaire's obligation in service supply issues, the non separation of the majority shares package, the delivery of periodic, technical and financial information to the ASEP, compliance with the technical quality standards (quality standards, measurement standards and operation regulations of the CND), and payment of the control, supervision and monitoring tariff of the ASEP, which may not be transferred to the users through the tariff.

8. Fair Value of Financial Instruments

The estimated fair values of financial instruments as of December 31, 2010 and 2009 are based on the information available at the date of the balance sheets. The Company has no knowledge of any factors that may significantly affect the estimated fair values of the most common financial assets and liabilities such as cash, trade receivables, severance funds, accounts payable, short-term and long-term debt; and customer deposits. The Company uses the following methods and assumptions for estimating fair value of financial instruments:

Trade Receivable, Accounts Payable, Short-Term Debt and Customer Deposits

The carrying amount approximates fair value because of the short maturity of those instruments.

Long-Term Debt

The fair value of long-term debt with variable interest rates approximates their carrying value. For fixed rate long-term debt, fair value has been determined using discounted cash flow analyses based on available market information. These estimates are subjective in nature and involve uncertainties. Therefore, actual results may differ from these estimates.

The estimated fair values of financial instruments are as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	<u>\$119,302,154</u>	<u>\$138,910,000</u>	<u>\$119,260,205</u>	<u>\$130,476,606</u>

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to financial statements

For the twelve months ended December 31, 2010 and 2009

(Expressed in United States dollars)

9. Subsequent Events

The Company evaluated all events and transactions that took place after the balance sheet date throughout February 28, 2011, when the financial statements were issued and determined that additional disclosures are not required.