

**Elektra Noreste, S.A.**

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

**Financial Statements**

**For the years ended December 31, 2008 and 2007,  
and Independent Auditors'  
Report Dated February 13, 2009**

**Elektra Noreste, S.A.**

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

**Independent Auditors' Report and  
Financial Statements 2008 and 2007**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Elektra Noreste, S.A.

We have audited the accompanying balance sheets of Elektra Noreste, S.A. (the "Company") as of December 31, 2008 and 2007, and the related statements of income, changes in equity, and cash flows for the years then ended (expressed in United States dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been translated into English for the convenience of readers in the United States of America.

Panama City, Republic of Panama  
February 13, 2009

**Elektra Noreste, S.A.**

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

**Balance Sheets****As of December 31, 2008 and 2007**

(Expressed in United States dollars)

Assets	Notes	2008	2007	Liabilities and Stockholders' Equity	Notes	2008	2007
Current assets:				Current liabilities:			
Cash		\$ 25,373,854	\$ 6,399,567	Accounts payable:			
Accounts receivable:				Generation and transmission	7, 12	\$ 41,359,356	\$ 51,838,006
Trade, net	3, 12	65,667,959	48,992,532	Suppliers	7	9,431,689	11,848,241
Fuel component adjustment, net	2n, 14	5,807,351	10,830,351	Construction contracts		7,953,645	6,890,657
Others, net	12	1,679,920	1,758,728	Advance on tariffs subsidy		4,301,986	2,142,287
Accounts receivable, net		73,155,230	61,581,611	Others	12	474,347	473,098
Inventory	4	6,227,277	7,073,144	Income tax payable		3,915,882	-
Prepaid income tax		-	2,153,309	Deferred income tax	8	781,894	1,597,256
Other current assets		1,032,627	699,744	Customers deposits	9	3,916,151	2,394,274
Total current assets		105,788,988	77,907,375	Withholding taxes		405,485	347,030
Property, plant, and equipment, net of accumulated depreciation	5	247,792,970	241,651,345	Total accounts payable		72,540,435	77,530,849
Other assets:				Short-term debt	10, 17	25,000,000	-
Debt issuance costs	6	2,739,968	2,478,822	Interest payable on debt		3,854,984	3,546,668
Severance fund		1,079,128	1,171,694	Accrued expenses		1,449,002	1,255,000
Security deposits on facilities		81,939	74,421	Total current liabilities		102,844,421	82,332,517
Total other assets		3,901,035	3,724,937	Long-term debt	10, 17	119,221,308	99,185,241
				Customers deposits and other liabilities:			
				Deferred income tax	8	2,821,414	2,849,086
				Customers deposits	9	5,963,575	7,125,023
				Reserves for contingencies	16	361,666	725,218
				Other accrued liabilities		2,617,062	1,418,217
				Total liabilities		233,829,446	193,635,302
				Stockholders' equity:			
				Common stock authorized, issued and outstanding: 50,000,000 shares without par value; 160,031 held in treasury	11	106,098,875	106,098,875
				Retained earnings		17,554,672	23,549,480
				Total stockholders' equity		123,653,547	129,648,355
Total assets		\$ 357,482,993	\$ 323,283,657	Total liabilities and stockholders' equity		\$ 357,482,993	\$ 323,283,657

See accompanying notes to financial statements.

**Elektra Noreste, S.A.**

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

**Statements of Income****For the years ended December 31, 2008 and 2007**

(Expressed in United States dollars)

	Notes	2008	2007
Revenues:			
Energy sales		\$ 506,430,023	\$ 348,992,369
Other revenues	13	<u>8,353,772</u>	<u>7,167,871</u>
Total revenues		514,783,795	356,160,240
Purchase of energy and transmission charges, net	12, 14	<u>433,712,618</u>	<u>280,426,578</u>
Gross distribution margin		<u>81,071,177</u>	<u>75,733,662</u>
Operating expenses:			
Labor and other personnel		9,027,864	8,116,471
Severance expenses		301,258	329,965
Provision for doubtful accounts, net		3,988,870	3,077,136
Repair and maintenance		2,853,097	2,800,749
Professional services		9,556,987	8,908,255
Management fees	12	1,951,682	1,861,866
Depreciation and amortization		13,097,654	12,510,175
Administrative and other		8,175,146	7,570,033
Loss on sale of fixed asset	5	<u>234,213</u>	<u>48,532</u>
Total operating expenses		<u>49,186,771</u>	<u>45,223,182</u>
Operating income		<u>31,884,406</u>	<u>30,510,480</u>
Other income (expense):			
Other income		289,361	366,167
Interest income		1,807,515	1,593,531
Interest expense	15	<u>(9,268,445)</u>	<u>(8,412,634)</u>
Total other expenses		<u>(7,171,569)</u>	<u>(6,452,936)</u>
Income before income taxes		<u>24,712,837</u>	<u>24,057,544</u>
Income taxes:	8		
Current		8,967,119	2,402,673
Deferred expense (benefit)		<u>(1,638,948)</u>	<u>4,890,112</u>
Total income taxes		<u>7,328,171</u>	<u>7,292,785</u>
Net income		<u>\$ 17,384,666</u>	<u>\$ 16,764,759</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****For the years ended December 31, 2008 and 2007**

(Expressed in United States dollars)

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	Notes	Common Stock	Treasury Stock	Retained Earnings	Total Equity
Balance as of January 1, 2007		\$ 106,642,962	\$ (544,087)	\$ 16,954,728	\$ 123,053,603
Net income		-	-	16,764,759	16,764,759
Dividends declared		-	-	(10,000,000)	(10,000,000)
Accredited complementary dividend tax	11	-	-	380,280	380,280
Complementary dividend tax paid	11	<u>-</u>	<u>-</u>	<u>(550,287)</u>	<u>(550,287)</u>
Balance as of December 31, 2007		106,642,962	(544,087)	23,549,480	129,648,355
Net income		-	-	17,384,666	17,384,666
Dividends declared		-	-	(23,549,480)	(23,549,480)
Accredited complementary dividend tax	11	-	-	775,202	775,202
Complementary dividend tax paid	11	<u>-</u>	<u>-</u>	<u>(605,196)</u>	<u>(605,196)</u>
Balance as of December 31, 2008		<u>\$ 106,642,962</u>	<u>\$ (544,087)</u>	<u>\$ 17,554,672</u>	<u>\$ 123,653,547</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****For the years ended December 31, 2008 and 2007**

(Expressed in United States dollars)

	2008	2007
Cash flows from operating activities:		
Net income	\$ 17,384,666	\$ 16,764,759
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,097,654	12,510,175
Loss on sale of fixed asset	234,213	48,532
Provision for doubtful accounts	3,988,870	3,077,136
Discount amortization of senior notes	36,067	33,443
Amortization of debt issuance costs	114,668	100,087
Provision for severance payments net of contribution to severance fund	(36,039)	53,392
Deferred income tax	(1,638,948)	4,890,112
Fuel component adjustment	5,023,000	(14,331,000)
Change in operating assets and liabilities:		
Accounts receivable	(18,425,790)	(7,403,414)
Other assets	(218,272)	(290,831)
Inventory	845,867	(1,053,510)
Trade accounts payable and other liabilities	(10,121,650)	13,127,357
Income tax	6,865,105	(8,792,307)
Complementary dividend tax	170,006	(170,007)
Seniority premium	53,656	(86,349)
Net cash provided by operating activities	<u>17,373,073</u>	<u>18,477,575</u>
Cash flows from investing activities:		
Acquisition of fixed assets	(19,711,985)	(20,510,471)
Proceeds from sales of fixed assets	<u>238,493</u>	<u>165,895</u>
Net cash used in investing activities	<u>(19,473,492)</u>	<u>(20,344,576)</u>

(Continued)

## Elektra Noreste, S.A.

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### Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(Expressed in United States dollars)

#### Cash flows from financing activities:

Proceeds from long-term debt	\$ 20,000,000	\$ -
Proceeds from short-term debt	25,000,000	-
Debt issuance costs	(375,814)	-
Dividends paid	<u>(23,549,480)</u>	<u>(10,000,000)</u>

Net cash provided (used) in financing activities 21,074,706 (10,000,000)

#### Cash and cash equivalents:

Net increase (decrease) for the year	18,974,287	(11,867,001)
Beginning of year	<u>6,399,567</u>	<u>18,266,568</u>

End of year \$ 25,373,854 \$ 6,399,567

#### Supplemental disclosure of cash flow information:

##### Cash paid during the year for:

Interest, net of amounts capitalized 8,507,318 7,929,759

Income taxes 2,102,015 11,194,962

(Concluded)

See accompanying notes to financial statements.



## **Elektra Noreste, S.A.**

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### **Notes to financial statements**

**For the years ended December 31, 2008 and 2007**

(Expressed in United States dollars)

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#### **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 Panamanian Government 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 16, 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.

Records are maintained in balboas, the currency of the country in which the Company is incorporated and operates. The translation of balboas amounts into U.S. dollar amounts are included solely for the convenience of readers in the United States of America, and as of December 31, 2008 and 2007, and for the years then ended were on a par with and freely exchangeable for U.S. dollar. The Republic of Panama does not issue paper currency and uses the U.S. dollar as legal tender.

#### **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* - 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 the electric suspension.

## Elektra Noreste, S.A.

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### Notes to financial statements

For the years ended December 31, 2008 and 2007

(Expressed in United States dollars)

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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 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, spare parts and supplies for the Company's consumption. 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 Statement of Financial Accounting Standards ("SFAS") No.34, "Capitalization of Interest Costs".

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 SFAS No.144, "Accounting for the 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 judgment is involved in both deciding whether testing for recoverability is necessary and estimating undiscounted cash flows. As of December 31, 2008 and 2007, 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.

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### Notes to financial statements

For the years ended December 31, 2008 and 2007

(Expressed in United States dollars)

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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:

	<u>Estimated Useful Life (in years)</u>
Poles, towers and accesories	30 to 40
Electric transformers	30
Underground conductors and ducts	40
Overhead conductors and accesories	25 to 35
Substation equipment	30
Consumer meters	30
Buildings and improvements	25 to 40
Public lighting equipment	25
Transportation and communications equipment	8 and 15
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 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, 2009, thereafter the tariff is 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 SFAS No.109, "Accounting for 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. Investment Tax Credit* - The Company accounts for Investment Tax Credit ("ITC") under the flow-through accounting method (full recognition in the period the asset is placed in service). Thus, a future deductible temporary difference exists, with which a deferred income tax asset is associated.

## Elektra Noreste, S.A.

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### Notes to financial statements

For the years ended December 31, 2008 and 2007

(Expressed in United States dollars)

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- j. 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.
- k. 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 16.
- l. 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 cause, 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".

- m. 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 Panamanian Government 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 Panamanian Government 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.

Pursuant to a Management Consulting Agreement dated November 16, 1998, as amended on March 4, 2002, CPI, Ltd., which owns 100% of PDG shares provides the Company with management and consulting services, including, but not limited to, strategic and operating advice, business development and contract review. PDG owns 51% of the Company's authorized issued and outstanding shares of common stock. The Company records the related fees derived from the agreement as management fees within the Statements of Income and any outstanding unpaid balance with CPI, Ltd. is shown in the balance sheets as others payable, see Note 12.

- n. 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 SFAS No.71, "Accounting for the Effects of Certain Types of Regulation". 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.

## Elektra Noreste, S.A.

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### Notes to financial statements

For the years ended December 31, 2008 and 2007

(Expressed in United States dollars)

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

	<u>2008</u>	<u>2007</u>	<u>Note</u>
Fuel component adjustment - asset	\$ 5,807,351	\$ 10,830,351	(See fuel component adjustment in Note 14)
Deferred income tax liabilities	<u>(1,742,205)</u>	<u>(3,249,105)</u>	
	<u>\$ 4,065,146</u>	<u>\$ 7,581,246</u>	

In the event that a portion of the Company's operations is no longer subject to the provisions of SFAS No.71, the 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.

***o. 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 income in the Statements of Income.

- p. 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.

## Elektra Noreste, S.A.

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### Notes to financial statements

For the years ended December 31, 2008 and 2007

(Expressed in United States dollars)

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- 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 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 September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No.157, Fair Value Measurements ("SFAS No.157"). SFAS No.157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Under SFAS No.157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. SFAS No.157 is effective for annual periods beginning after November 15, 2007. The adoption of this statement did not have any impact in the Company's financial statements.

In February 2007, the FASB issued Statement No. 159, Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"). This statement permits, but does not require, companies to account for financial instruments at fair value that are not otherwise required to be measured at fair value. The statement is effective for fiscal years beginning after November 15, 2007. The adoption of this statement did not have any impact in the Company's financial statements.

**Elektra Noreste, S.A.**

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**Notes to financial statements****For the years ended December 31, 2008 and 2007**

(Expressed in United States dollars)

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**3. Accounts Receivable - Trade**

At December 31, 2008 and 2007, accounts receivable – trade, are as follows:

	<b>2008</b>	<b>2007</b>
Customers	\$ 58,437,236	\$ 44,364,605
Government and municipal entities	<u>6,518,741</u>	<u>5,344,040</u>
	64,955,977	49,708,645
Unbilled revenue	7,150,167	6,429,577
Government subsidy (see Note 14)	<u>2,300,158</u>	<u>-</u>
	74,406,302	56,138,222
Allowance for doubtful accounts	<u>(8,738,343)</u>	<u>(7,145,690)</u>
Total	<u>\$ 65,667,959</u>	<u>\$ 48,992,532</u>

During the years ended December 31, 2008 and 2007, the Company charged off against the allowance for doubtful accounts the amounts of US\$2,671,782 and US\$8,425 and recovered from previous write-off balances the amounts of US\$275,565 and US\$240,475, respectively.

**4. Inventory**

At December 31, 2008 and 2007, inventory is composed of the following:

	<b>2008</b>	<b>2007</b>
Materials and supplies	\$ 5,553,491	\$ 6,368,228
Tools and spare parts	<u>673,786</u>	<u>704,916</u>
Total	<u>\$ 6,227,277</u>	<u>\$ 7,073,144</u>

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(Expressed in United States dollars)

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**5. Property, Plant, and Equipment**

At December 31, 2008 and 2007, property, plant and equipment are as follows:

	<b>2008</b>	<b>2007</b>
Poles, towers and accessories	\$ 75,541,540	\$ 76,213,279
Electric transformers	41,400,542	39,135,393
Underground conductors and ducts	57,939,910	55,856,479
Consumer services	28,746,598	27,809,075
Overhead conductors and accessories	34,015,956	29,616,124
Substation equipment	50,451,248	49,621,862
Consumer meters	27,085,229	24,401,461
Buildings and improvements	13,738,645	13,512,566
Public lighting equipment	12,107,646	11,750,127
Transportation and communication equipment	6,082,271	6,066,890
Office furniture and equipment	15,055,756	14,312,218
Construction in progress	15,478,254	12,527,494
Other	<u>2,517,044</u>	<u>2,368,949</u>
	380,160,639	363,191,917
Less: Accumulated depreciation and amortization	<u>(135,514,152)</u>	<u>(124,687,055)</u>
	244,646,487	238,504,862
Land	<u>3,146,483</u>	<u>3,146,483</u>
Total	<u>\$ 247,792,970</u>	<u>\$ 241,651,345</u>

At December 31, 2008 and 2007, the Company incurred a loss of US\$234,213 and US\$48,532 respectively on the disposal of equipment, which is reflected in the Company's Statements of Income in the Loss on sale of fixed asset caption. As of December 31, 2008 and 2007 the Company had capitalized interest for US\$92,830 and US\$42,812 respectively.



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#### 6. Debt Issuance Costs

At December 31, 2008 and 2007, deferred costs are as follows:

	2008	2007
Beginning balance	\$ 2,478,822	\$ 2,578,909
Issuance costs	375,814	-
Amortization	<u>(114,668)</u>	<u>(100,087)</u>
Ending balance	<u>\$ 2,739,968</u>	<u>\$ 2,478,822</u>

The debt issuance costs incurred in 2008 corresponds to Corporate Bonds issued pursuant to a subscription contract with Banco General, S. A., see Note 10.

The debt issuance costs are being amortized under the effective interest method over the repayment period of the debt.

#### 7. Accounts Payable

Generation and Transmission - At December 31, 2008 and 2007, accounts payable to generation and transmission companies are as follows:

	2008	2007
PanAM Generating Ltd.	\$ 7,726,595	\$ 11,459,686
Pedregal Power Company	4,322,428	6,997,494
Térmica del Noreste, S.A.	1,930,236	2,180,221
Others	<u>2,805,377</u>	<u>218,949</u>
	16,784,636	20,856,350
<b>Related Parties</b>		
AES Panamá, S.A.	10,477,134	9,780,186
Autoridad del Canal de Panamá	1,854,706	1,722,685
Empresa de Generación Eléctrica Bahía Las Minas Corp.	7,277,838	13,490,202
Empresa de Generación Eléctrica Fortuna, S.A.	3,178,834	4,273,012
Empresa de Transmisión Eléctrica, S.A.	<u>1,786,208</u>	<u>1,715,571</u>
	<u>24,574,720</u>	<u>30,981,656</u>
Total	<u>\$ 41,359,356</u>	<u>\$ 51,838,006</u>

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*Suppliers* - At December 31, 2008 and 2007, accounts payable to suppliers are as follows:

	<b>2008</b>	<b>2007</b>
Construcion contractors	\$ 3,137,877	\$ 3,813,034
Maintenance and repairs	1,609,466	1,682,062
Materials and inventory	2,702,057	2,796,356
Outsourcing and services	1,221,262	2,323,835
Others	<u>761,027</u>	<u>1,232,954</u>
Total	<u>\$ 9,431,689</u>	<u>\$ 11,848,241</u>

**8. 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 totally realized.

The difference between the provision for income tax for the years ended December 31, 2008 and 2007, 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:

	<b>2008</b>	<b>2007</b>
<b>Income tax:</b>		
Computed at expected statutory rate	\$ 7,413,851	\$ 7,217,263
Decrease in income tax due to non-taxable income	(154,373)	(61,036)
Increase in income tax due to non-deductible expenses	<u>68,693</u>	<u>136,558</u>
Total income tax	<u>\$ 7,328,171</u>	<u>\$ 7,292,785</u>

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

	<b>2008</b>	<b>2007</b>
Current deferred income tax assets:		
Provision for doubtful accounts	\$ 732,067	\$ 704,730
Investment tax credit	-	775,343
Other	<u>228,244</u>	<u>171,776</u>
Total deferred income tax assets	<u>960,311</u>	<u>1,651,849</u>
Current liabilities-fuel component adjustment	<u>(1,742,205)</u>	<u>(3,249,105)</u>
Current deferred income tax liabilities, net	<u>\$ (781,894)</u>	<u>\$ (1,597,256)</u>

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	2008	2007
Non-current deferred income tax assets-		
Provision for contingencies	\$ 108,500	\$ 217,566
Non-current liabilities-depreciation expense	<u>(2,929,914)</u>	<u>(3,066,652)</u>
Non-current deferred income tax liabilities, net	<u>\$ (2,821,414)</u>	<u>\$ (2,849,086)</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. Companies are also subject to examination by the Panamanian tax authorities regarding compliance with stamp tax regulations.

Under FIN No. 48, 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 FIN No. 48. 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.

Years starting with 2006 are subject to examination by tax authorities, although no examination is currently scheduled or in process. Years prior to 2006 are considered closed years.

#### 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 it 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 (US\$13,673,745 x 30%).

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#### 9. Customers Deposits

At December 31, 2008, the Company estimated that the amount of deposits to be returned to customers during fiscal year 2009 will be US\$3,916,151 (includes accrued interest of US\$143,636).

The activity in the customer's deposits accounts for the years 2008 and 2007 is as follows:

	2008	2007
Beginning balance	\$ 9,519,297	\$ 10,406,547
Deposits received from customers	1,897,971	1,579,020
Interest accrued	295,938	367,343
Deposits returned to customers	(1,472,891)	(2,312,670)
Interest paid	<u>(360,589)</u>	<u>(520,943)</u>
Ending balance	9,879,726	9,519,297
Current portion	<u>(3,916,151)</u>	<u>(2,394,274)</u>
Long-term portion	<u>\$ 5,963,575</u>	<u>\$ 7,125,023</u>

#### 10. Debt

Short-term debt

At December 31, 2008 and 2007, borrowings under revolving credit facilities are as follows:

	2008	2007
<b>Promissory notes</b>		
The Bank of Nova Scotia	\$ 15,000,000	\$ -
HSBC Bank (Panama), S.A.	<u>10,000,000</u>	<u>-</u>
Total short-term debt	<u>\$ 25,000,000</u>	<u>\$ -</u>

The Company has available revolving credit lines with The Bank of Nova Scotia, Banco General, S. A. and HSBC Bank (Panama), S.A., with an aggregated credit line of US\$50,000,000 in 2008, and annual interest rates ranging between 1 to 6 months LIBOR plus 1.50% and 2.50%. The Company had revolving credit lines with The Bank of Nova Scotia, Banco Bilbao Vizcaya Argentina (Panamá), S.A., Banco General, S.A., and Citibank, N.A. with an aggregated credit line of US\$60,500,000 in 2007, with annual interest rates ranging between 1 to 6 months LIBOR plus 1.20% and 1.50%. These unsecured credit facilities are available with a maximum term of up to one year. The Company uses these facilities as needed for working capital and other needs.

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#### Long-term Notes

At December 31, 2008 and 2007, the balance of the long-term notes is as follows:

	2008	2007
<b>Long-Term Notes</b>		
Senior Notes	\$ 100,000,000	\$ 100,000,000
Corporate Bonds	20,000,000	-
Less:		
Senior notes discount	<u>(778,692)</u>	<u>(814,759)</u>
Total Long-term debt	<u>\$ 119,221,308</u>	<u>\$ 99,185,241</u>

The Company has notes payable under a senior debt agreement (“Senior Notes”) totaling US\$100,000,000 which is recorded at US\$99,221,308, net of US\$778,692 unamortized discount at December 31, 2008. 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.

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.

#### 11. Dividend Tax and Treasury Stocks

##### *Dividend Tax*

Dividends are paid to shareholders net of withholding taxes of ten percent (10%). If dividends are not distributed or total dividends distributed are less than forty percent (40%) of net taxable income, a dividend tax of four percent (4%) of net income should be prepaid until such time when a dividend is declared on such earnings. The four percent rate is known as “Complementary Tax” and considered an advance on dividends tax. The Complementary tax paid is recorded and presented as a reduction to stockholders' equity or as an increase when accredited upon dividend tax declaration. During the years ended December 31, 2008 and 2007, the Company paid complementary tax in the amounts of US\$605,196 and US\$550,287, and accredited the amounts of US\$775,202 and US\$380,280 corresponding to advances on dividends tax, respectively.

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#### *Treasury Stocks*

In 1998, as a consequence of the privatization process, the Company's employees had the option to purchase a portion of the common stock of the Company. In the event that employees wish to sell their previously acquired stock, the Company is no longer required to repurchase the stock.

## 12. Related Party Transactions

In the normal course of business, the Company purchases electricity from generation and other distribution companies, sells energy to governmental institutions and makes payments to the transmission company. These transactions are made under the terms and conditions of the power purchase agreements and the transmission tariff, see Notes 2 and 16. A summary of the balances and amounts derived from the purchase and sale of energy with related parties is as follows:

	2008	2007
Accounts receivable (trade) - Government	\$ 6,518,741	\$ 5,344,040
Accounts receivable (others) - Distribuidora de Electricidad Del Sur de C.V.	1,206	-
Accounts receivable (others) - AEI Energy Services, LLC	-	3,752
Accounts receivable (others) - Prisma Energy Global Services, Ltd.	-	48,247
Accounts payable (generation and transmission)	24,574,720	30,981,656
Accounts payable (others) - Promigas, S.A.	-	394
Accounts payable (others) - AEI Guatemala Ltda.	-	17,041
	<b>2008</b>	<b>2007</b>
<b>Transactions</b>		
Revenues	\$ 60,352,216	\$ 40,915,377
Purchases of energy	259,216,498	163,219,738
Transmission costs	10,365,511	10,286,346

Management Consulting Agreement - The Company entered into a Management Consulting Agreement in 1998 with CPI, Ltd. ("the Operator"), the successor to Constellation Power, Inc.

Under this agreement, CPI, Ltd's employees, agents, consultants, contractors or affiliates shall perform the following services:

- Review the business plan of the Company and make the necessary recommendations to the board of directors;
- Provide on-going advice concerning day-to-day operations of the Company, including accounting, billing, quality control, environmental matters, and safety;
- Prepare the annual business plan of the Company in cooperation with senior management;
- Investigate and make recommendations to the board, from time to time, regarding business development opportunities and corporate strategic planning, including potential expansion; and;
- Review all contracts with third parties exceeding an annual value of US\$100,000.

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The Company pays the Operator an annual fee as compensation for the performance of its obligations under this agreement in an amount equal to four percent (4%) of earnings before interest, taxes, depreciation and amortization.

At December 31, 2008 and 2007, the Company had the following balances and transactions with CPI, Ltd.:

	<b>2008</b>	<b>2007</b>
Accounts payable	\$ <u>474,347</u>	\$ <u>455,663</u>
Management fees	\$ <u>1,951,682</u>	\$ <u>1,861,866</u>

**13. Other Revenues**

Other revenues are composed of the following:

	<b>2008</b>	<b>2007</b>
Conecction/reconnection charges	\$ 820,107	\$ 698,972
Pole rentals	3,028,557	2,779,109
Wheeling charges	3,152,325	2,565,525
Other income	<u>1,352,783</u>	<u>1,124,265</u>
Total	<u>\$ 8,353,772</u>	<u>\$ 7,167,871</u>

**14. Purchase of Energy and Transmission Charges, Net**

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

	<b>2008</b>	<b>2007</b>
Purchase of energy	\$ 418,059,103	\$ 284,253,158
Transmission charges	10,630,515	10,504,420
Fuel component adjustment	<u>5,023,000</u>	<u>(14,331,000)</u>
Total purchase of energy and transmission charges, net	<u>\$ 433,712,618</u>	<u>\$ 280,426,578</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.

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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 Panamanian Government, see Note 3.

At December 31, 2008, a net receivable balance of US\$5,807,351 was determined as a consequence of the variance resulting from the energy cost considered in the electric tariff for the year 2008 over the actual cost of energy purchased. The balance is comprised of receivables of US\$16,559,000, accumulated from January to June 2008 to be recovered from customers in the first semester of 2009 and payables of US\$10,751,649 accumulated from July to December 2008 to be return to the customers in the first semester of 2009.

#### 15. Interest Costs

The Company capitalizes the portion of interest costs associated with construction in progress. The following is a summary of interest costs incurred:

	2008	2007
Interest costs capitalized	\$ 92,830	\$ 42,812
Interest costs charged to expenses	<u>9,268,445</u>	<u>8,412,634</u>
Total interest costs incurred	<u>\$ 9,361,275</u>	<u>\$ 8,455,446</u>

#### 16. 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, 2008 and 2007, the Company had total reserves for loss contingencies in the amount of US\$361,666 and US\$725,218 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-5956 dated April 11, 2006 ordered the Company to return US\$4,033,188 to the customers as a monthly credit on their bills starting May 2006 until December 2006 on grounds of a supposedly excess in the authorized Maximum Allowed Income, charged by the Company to its customers from July 2002 through June 2006.



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According to the ASEP, this alleged excess was generated from the difference between the breakdown by tariff type of the forecast used to determine the tariff structure and the actual breakdown. The Company appealed this decision due to a lack of legal grounds and in addition presented a revision of the study developed by the ASEP in which the difference in the "Maximum Allowed Income" caused by tariff type of the forecast used to determine the tariff structure and the actual breakdown proved to be in favor of the Company. The ASEP decided as of June 14, 2006 to suspend any further action on Resolution JD-5956 until the Supreme Court pronounce on a related counterclaim that alleged for illegality against Resolution JD-5845, filed by the other distribution company. On December 22, 2008, the regulatory entity issued Resolution No.2269, revoking in all its parts Resolution JD-5956 of April 11, 2006. The decision by the regulatory entity was originated by the fact that the Company was able to fully prove that its approach related to the calculation of tariffs and variances presented by the Company in the legal appeal were correct.

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 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, 2008 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 the other 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.

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#### *Commitments*

As of December 31, 2008, 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>
Termica del Noreste, S.A.	as requested	June 19, 2000	July 19, 2010
Esti - AES	48.72	November 20, 2003	November 20, 2013
La Mina Hidro - Power	28	January 1, 2008	December 31, 2015
Bontex	19.8	January 1, 2009	December 31, 2015
Paso Ancho Hidro-Power	4	January 1, 2010	December 31, 2015
Fortuna	80	January 1, 2009	December 31, 2012
Fortuna	120	January 1, 2013	December 31, 2018
Pedregal Power Co.	10; 1; 1	January 1, 2007	December 31, 2009
Semper Group.	30	January 1, 2009	December 31, 2010
Pan Am	16; 16; 45; 45	January 1, 2007	December 31, 2010
Fortuna	25; 5; 15	January 1, 2007	December 31, 2009
Pedregal Power Co.	42	January 1, 2009	December 31, 2009
Pan Am	32	January 1, 2009	December 31, 2009
Semper Group.	0.0075	January 1, 2010	December 31, 2010
Semper Group.	23	January 1, 2011	December 31, 2012
Bahía Las Minas	0.001	January 1, 2009	December 31, 2009
Bahía Las Minas	108	January 1, 2010	December 31, 2018
Bahía Las Minas	108	January 1, 2019	December 31, 2023
Pan Am	20	January 1, 2010	December 31, 2019
Pan Am	60	January 1, 2011	December 31, 2020
Termica del Caribe	2.85	March 1, 2009	March 30, 2014
Inversiones y Desarrollos Balboa	24.6	January 1, 2009	December 31, 2011
Esepsa	0.96	July 1, 2009	June 30, 2014
Generadora del Atlántico	30	July 1, 2009	June 30, 2014
Fortuna	59	January 1, 2009	December 31, 2009
Pedregal Power Co.	4	January 1, 2009	December 31, 2009
Fortuna	55.5	January 1, 2010	December 31, 2011
BLM	10.13	January 1, 2009	December 31, 2009
Pedregal Power Co.	15	January 1, 2010	December 31, 2011
ACP	30; 22	January 1, 2010	December 31, 2011
AES Panamá	39	January 1, 2012	December 31, 2012
AES Panamá	23	January 1, 2013	December 31, 2021
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

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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 79% to 95% of its total energy requirements via purchase agreements on the contract market. For the years ended December 31, 2008 and 2007, the Company purchased approximately 81% and 93%, respectively, 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 energy use. The aggregate amount of future payments required under such unconditional long term contracts, is as follows:

Year	Payment Obligation
2009	\$ 59,673,866
2010	88,752,248
2011	88,556,668
2012	73,085,868
2013	83,005,313
Thereafter	<u>638,872,007</u>
<b>Total</b>	<b><u>\$ 1,031,945,970</u></b>

During the years ended, December 31, 2008 and 2007, the Company has expensed the amount of US\$38,455,131 and US\$36,087,982 respectively on such unconditional long-term contracts, recorded under Purchase of energy and transmission charges, net on the Statements of Income.

On October 20, 2003, the Company and the workers' union signed its second Labor Collective Agreement for a four-year term that expired on October 20, 2007. On January 30, 2008 negotiations with the worker's union were concluded and a new Labor Collective Agreement was signed. These agreements do not maintain or considered additional material commitments besides those established in the labor law. The new Labor Collective Agreement is effective as from February 2008 and is valid for the term of four years.

#### *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, 2008 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 ending December 31:

2009	\$ 460,133
2010	473,936
2011	488,155
2012	502,799
2013	517,883
Thereafter	<u>174,320</u>
Total minimum payments required	<b><u>\$ 2,617,226</u></b>

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The total renta expense for the years ended December 31, 2008 and 2007 for all operating leases was US\$1,577,674 and US\$1,555,885 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 is able to perform under these contracts and that it 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-months period with automatic renewals as long as the power purchase agreement is in place. The aggregate guarantee amount for the performance obligation is US\$19,069,258. 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.

The Company has several standby letters of credit for US\$8,992,935 in favor of ETESA to guarantee the payment of transmission costs and energy purchases in the energy exchange market. The Company also has a standby letter of credit for US\$797,471 in favor of Telvent Energía y Medio Ambiente, S.A. to guarantee the payment of a software development.

#### ***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 the 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.

## **17. Fair Value of Financial Instruments**

The estimated fair values of financial instruments as of December 31, 2008 and 2007 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:

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***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:

		2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value	
Long-term debt	\$ 119,221,308	\$147,520,664	\$99,185,241	\$109,721,183	

**18. Approval of financial statements**

The financial statements were prepared and approved by management and authorized for issuance on February 13, 2009.

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