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Elektra Noreste, S. A.

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

Financial Statements
December 31, 2011 and 2010

Elektra Noreste, S. A.

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December 31, 2011

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Elektra Noreste, S.A.

ENSA

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, 2011, 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 29, 2012
Panama, Republic of Panama

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

Balance Sheet (unaudited)
December 31, 2011
(Expressed in United States dollars)

	Notes	2011	2010
Assets			
Current assets			
Cash and cash equivalents		US$ 3,398,707	US$ 21,984,499
Accounts receivable:			
Trade and other, net	3	68,458,877	58,268,380
Regulatory assets	2m, 6	23,407,351	-
Accounts receivable, net		91,866,228	58,268,380
Inventory		7,974,027	5,630,085
Deferred income tax	4	-	1,586,742
Other current assets		1,477,234	422,034
Total current assets		104,716,196	87,891,740
Property, plant, and equipment, net		279,010,318	258,026,592
Other assets			
Debt issuance costs		2,276,694	2,443,999
Severance fund		1,814,687	1,525,092
Security deposits on facilities		114,056	104,820
Intangibles, net		6,346,529	5,743,114
Parts and spare parts		932,733	739,608
Total other assets		11,484,699	10,556,633
Total assets		US$ 395,211,213	US$ 356,474,965

Liabilities and Stockholders' Equity	**Notes**	**2011**	**2010**
Current liabilities			
Accounts payable			
Generation and Transmission		US$ 65,059,080	US$ 56,137,544
Suppliers		18,026,316	11,049,741
Construction Contracts		9,994,230	8,500,845
Regulatory liabilities	2m, 6	-	1,903,649
Income tax payable		1,111,503	10,221,045
Deferred income tax	4	6,159,251	-
Customers' deposits		1,564,343	1,550,343
Withholding taxes		358,346	334,172
Total accounts payable		102,273,069	89,697,339
Short-term debt	5	10,000,000	-
Interest payable on debt		3,670,376	3,653,246
Accrued expenses		2,234,307	1,789,901
Total liabilities		118,177,752	95,140,486
Long-term debt	5, 8	119,347,394	119,302,154
Customer deposits and other liabilities			
Deferred income tax	4	2,665,826	2,755,575
Customer's deposits		4,724,360	5,141,980
Provision for contingencies	7	78,610	173,110
Other accrued liabiliities		2,305,629	2,360,903
Total liabilities		247,299,571	224,874,208
Authorized and issued common stock 50,000,000 shares without par value; 160,031 stock in treasury		106,098,875	106,098,875
Retained earnings		41,812,767	25,501,882
Total stockholders' equity		147,911,642	131,600,757
Total liabilities and stockholders' equity		US$ 395,211,213	US$ 356,474,965

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 December 31, 2011	Three Months Ended December 31, 2010	Twelve Months Ended December 31, 2011	Twelve Months Ended December 31, 2010
Revenues:					
Energy sales	6	$ 130,941,730	$ 101,804,131	$ 474,351,054	$ 443,903,930
Other revenues		2,446,021	2,649,585	9,633,127	9,036,878
Total revenues		133,387,751	104,453,716	483,984,181	452,940,808
Purchase of energy and transmission charges, net	6	107,669,231	80,881,852	381,789,833	359,211,739
Gross distribution margin		25,718,520	23,571,864	102,194,348	93,729,069
Operating expenses:					
Labor and other personnel		2,194,851	2,212,302	8,688,835	8,625,323
Severance expenses		71,607	157,893	261,597	583,346
Provision for doubtful accounts, net		627,439	278,876	1,099,909	1,004,485
Repair and maintenance		752,193	904,695	2,852,553	2,926,311
Professional services		3,305,354	3,140,476	13,687,758	12,496,355
Depreciation and amortization		4,663,021	4,009,076	16,182,172	14,789,187
Administrative and other		2,481,684	2,164,057	8,907,963	9,254,094
Loss (gain) on disposal of fixed asset		245,594	106,238	85,002	348,056
Total operating expenses		14,341,743	12,973,613	51,765,789	50,027,157
Operating income		11,376,777	10,598,251	50,428,559	43,701,912
Other income (expense):					
Other income		52,977	88,933	512,041	380,928
Interest income		307,556	326,567	1,127,973	1,089,288
Interest expense		(2,202,534)	(2,131,778)	(8,586,409)	(8,731,186)
Total other expenses		(1,842,001)	(1,716,278)	(6,946,395)	(7,260,970)
Income before income taxes		9,534,776	8,881,973	43,482,164	36,440,942
Income taxes:	4				
Current		5,399,815	1,058,251	5,395,364	16,212,674
Deferred expense (benefit)		(2,486,931)	1,810,080	7,656,245	(5,272,665)
Total income taxes		2,912,884	2,868,331	13,051,609	10,940,009
Net income		$ 6,621,892	$ 6,013,642	$ 30,430,555	$ 25,500,933

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, 2011 and 2010
(Expressed in United States dollars)

	Notes	Common Stock	Treasury Stock	Retained Earnings	Total Equity
Balance as of January 1, 2010		$ 106,642,962	$ (544,087)	$ 25,789,653	$ 131,888,528
Net income				25,500,933	25,500,933
Dvidends paid		-	-	(26,174,189)	(26,174,189)
Accredited complementary dividend tax				924,308	924,308
Complementary dividend tax paid		-	-	(538,823)	(538,823)
Balance as of December 31, 2010		$ 106,642,962	$ (544,087)	$ 25,501,882	$ 131,600,757
Net income		-	-	30,430,555	30,430,555
Dividends paid		-	-	(13,500,000)	(13,500,000)
Accredited complementary dividend tax		-	-	540,000	540,000
Complementary dividend tax paid		-	-	(1,159,670)	(1,159,670)
Balance as of December 31, 2011		$ 106,642,962	$ (544,087)	$ 41,812,767	$ 147,911,642

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, 2011 and 2010
(Expressed in United States dollars)

	2011	2010
Cash flows from operating activities:		
Net income	$ 30,430,555	$ 25,500,933
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,182,172	14,789,187
Loss on disposal of fixed asset	85,002	348,056
Provision for doubtful accounts	1,099,909	1,004,485
Discount amortization of senior notes	45,240	41,949
Amortization of debt issuance costs	167,305	155,020
Provision for severance payments net of contribution to severance fund	(2,176)	64,002
Deferred income tax	7,656,244	(5,272,665)
Regulatory asset (liability)	(25,311,000)	17,689,000
Change in operating assets and liabilities:		
Accounts receivable	(11,390,407)	3,023,675
Inventory	(2,343,942)	(1,373,844)
Other assets	(1,247,493)	784,909
Trade accounts payable and other liabilities	17,186,279	(3,140,023)
Income tax	(9,109,541)	13,042,043
Seniority premium	(59,953)	(185,089)
Net cash provided by operating activities	23,388,194	66,471,638
Cash flows from investing activities:		
Acquisition of fixed assets	(38,317,453)	(24,848,931)
Proceeds from sales of fixed assets	463,137	237,925
Net cash used in investing activities	(37,854,316)	(24,611,006)

(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, 2011 and 2010
(Expressed in United States dollars)

	2011	2010
Cash flows from financing activities:		
Proceeds from short-term debt	10,000,000	-
Accredited complementary dividend tax	540,000	924,308
Complementary dividend tax paid	(1,159,670)	(538,823)
Dividends paid	(13,500,000)	(26,174,189)
Net cash (used in) provided by financing activities	(4,119,670)	(25,788,704)
Cash and cash equivalents:		
Net (decrease) increase for the year	(18,585,792)	16,071,928
Beginning of year	21,984,499	5,912,571
End of year	$ 3,398,707	$ 21,984,499
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest, net of amounts capitalized	$ 8,227,579	$ 8,353,394
Income taxes	$ 14,504,905	$ 3,170,632

(Concluded)

See accompanying notes to financial statements.

1. Nature of Operations

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

The activities of the Company include the purchase of energy in blocks and its transportation to costumers through the distribution network. In addition, the Company performs voltage transformation, the delivery of power to end consumers, and meter reading, invoicing and collections. The Company is also responsible for installing, operating, and maintaining public lighting in the concession area (as defined in the following paragraph), according to lighting levels and criteria established by the National Public Services Authority ("ASEP"). Additionally, the Company is authorized to engage in energy generation activities to a limit of 15% of the peak demand and energy in the concession area.

Under the concession contract described in Note 16, the Company has exclusive rights for the distribution and sale of electric power to customers located in the geographical areas of Panama East, Colon, the Bay of Panama, the Comarca Guna Yala and Darien. Exclusive rights in the distribution phase also includes "large customers" which are defined by Law 6 of February 3, 1997, as those customers with peak demand over 100 KW per site, who have the option to purchase energy directly from other agents of the electricity market.

2. Summary of Significant Accounting Policies

A summary of significant accounting policies used in preparing the accompanying financial statements are presented below:

Basis for Presentation

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

The financial statements have been prepared under a historical cost basis.

a. Cash and Cash Equivalents
All liquid investments with original maturity of three months or less are considered as cash equivalents.

b. Accounts Receivable
Accounts receivable are recorded at the invoiced amount and bear interest on past due amounts. Interest is recorded as income until the end date of the customer's account, which occurs approximately 60 days after the suspension of power supply. It is Company policy to review receivable balances on a monthly basis and adjust the allowance for uncollectible accounts.

The Company establishes a provision for losses if it is determined that the amounts could be uncollectible. The Company estimates a provision based on how long ago had the account expired, factors or conditions that affect their clients and historical experience. Account balances are written off after all collection efforts and the potential recovery of these balances are considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

c. Regulatory Assets (Liabilities)
The regulated system under which the Company operates provides that any excess or deficiency between the estimated cost of energy considered in the tariff and the actual cost incurred by the Company be included as a compensatory adjustment to be recovered from or refunded to customers in the next tariff revision. Any excess in energy costs charged to customers is accrued in accounts payable on the balance sheet and leads to a reduction in the next rate revision to be applied to customers. Just as any shortfall in energy costs charged to customers is accrued in the account receivable on the balance sheet and leads to an increase in the next tariff revision to be recovered from customers.

d. Inventory
Inventories primarily include materials and supplies for internal consumption. Tools and spare parts are considered part of the inventory but classified as non-current assets. Inventory is accounted for at the lower of cost or market. Cost is determined by using the average cost method

e. Property, Plant, and Equipment
Property, plant and equipment purchases and construction in progress are recorded at original cost which includes materials, labor, transportation costs, indirect and financial costs. The Company reports the property, plant, and equipment on the balance sheet, net of accumulated depreciation.

Costs associated with significant improvements made to the property, the plant and equipment are capitalized as well as disbursements for significant renovations. Costs associated with repairs and minor replacements are expensed as incurred. The Company also capitalizes interest incurred during the construction period in accordance with

("Accounting Standards Codification") ("ASC") No.835, "Interest" issued by the "Financial Accounting Standard Board" ("FASB").

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through operations, according to the ASC 360 Property, plant and equipment (ASC 360-10-35), "Impairment or Disposal of Long-Lived Assets". If the carrying value of the asset exceeds the discounted future cash flows generated by the asset or group of assets, a loss due to damages is acknowledged and the asset is recorded at market value. The fair value can be determined through the use of quotes from market prices, appraisals or other valuation techniques, such as expected future cash flows discounted to its value. Management judgment is involved to decide whether testing for recovery are needed and for estimating discounted cash flow. As of December 31, 2011 and 2010, no impairment of long-lived assets were identified.

Gains or losses on property, plant and equipment are recognized when assets are removed 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.

Depreciation and amortization are calculated on the straight-line method on the basis of the estimated useful lives of the assets. The estimated useful lives applicable for each fixed asset category, is shown below:

Electric poles, towers and accessories	30 Years
Electric transformers	30 Years
Ducts and underground conductors	30 Years
Overhead conductors and accessories	25 Years
Substation equipment	30 Years
Consumer meters	20 to 30 Years
Buildings and improvements	35 Years
Public lighting equipment	25 Years
Transportation equipment	8 Years
Communication equipment	8 to 25 Years
Office furniture and equipment	5 to 20 Years

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. No new debt was issued during the period 2011 and 2010.

g. Purchase of Energy and Transmission Charge

The Company is required by law to guarantee through contracts the coverage of 100% of the demand for its regulated customers for the next 24 months. The strategy of purchasing energy is based on holding medium and long term contracts to protect customers from strong fluctuations on the generation component of the tariff. These contracts are considered executory in nature and do not transfer to the Company the right to use the related property, plant and equipment. These contracts for energy and capacity qualify under the exceptions for accounting of derivative instruments since they comply with the conditions for normal purchases and normal sales as prescribed by the ASC 815, "Derivatives and Hedging." The company also engages in the purchase of short term hourly energy in the wholesale market, which is administered by the National Dispatch Center (Centro Nacional de Despacho "CND" in Spanish). The Company recognizes the current cost of energy purchase resulting from these contracts in the Statement of Income.

In addition the Company pays a regulated rate to Empresa de Transmision Electrica, 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 the demand growth and system stability. The current transmission rate is due to remain in force until June 30, 2013; thereafter the rate will be reviewed by ETESA and the ASEP for the next four-year period.

h. Income Tax

Income tax for the year includes both current and deferred tax. The current income tax refers to the estimated income tax payable over taxable income of the fiscal year using the applicable rate at the balance sheet date.

Deferred income taxes are accounted for under the asset-liability method as provided 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 in which the change is enacted.

i. Customer Deposits

The Company requires customers to provide cash deposits as a guarantee of payment for energy consumed, in accordance to the legislation set forth by the ASEP. The Company pays semiannual interests to customers that maintain deposits based on an average annual interest rate of the previous six months upon local time deposits.

The ASEP issued resolution AN 411-Elec (Nov. 16, 2006) amended by Resolution AN 3473-Elec (May 7, 2010) 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 to the customer. The Company classifies

deposits that do not meet the condition of good payment record as non-current liabilities.

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

k. Seniority Bonus and Severance Fund
According to the Panamanian Labor Code, upon termination of any employee with an open ended contract, regardless the causes; the employee is entitled to a seniority bonus at the rate of one week's salary for every year of work, since they were first employed. Seniority bonuses represent 1.92% of total salaries paid and are reported on the balance sheet under Other Accrued Liabilities.

Law N° 44 dated August 12, 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 of a seniority premium to the employee and severance in case of unjustified dismissal or resignation. The Company keeps a trust fund through an authorized private entity, Progreso, S. A., which acts as trustee to secure the severance fund liability. This trust fund is reported on the Balance Sheets under "Severance fund".

l. Related Parties
As a result of the restructuring of the electricity sector in Panama, three distribution companies, four generating companies, and one transmission company were established. The Panamanian Government retained 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 has 48.25% of the Company's shares 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, it sells energy to governmental institutions and makes payments to the transmission company. The Company recognizes these activities as related party transactions.

m. Regulated Activity
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 provided for electric utilities companies by the ASEP.

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

		2011	2010
Regulatory Asset	Note 6	US$ 23,407,351	US$ -
Regulatory Liability	Note 6	-	(1,903,649)
Deferred income tax - asset (liability)	Note 4	(7,022,205)	571,095
		US$ 16,385,146	US$ (1,332,554)

In the event that a portion of the Company's operations is no longer subject to the provisions of ASC 980, 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 there is any damage to other assets, including the property, plant, and equipment and, and if impaired, write down the assets to their fair value.

n. Earnings Recognition

Energy Sales
The Company recognizes its earnings for energy sales when service is delivered to and consumed by customers. The Company invoices customers based on meter readings that are performed on a systematic basis throughout the month. The applicable rates used to invoice customers include energy cost and distribution components. The energy cost component works as a pass-through for the energy purchased and transmission charges while the distribution components is set by the ASEP to allow distributors to recover costs related to maintenance, administration, marketing, 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 as revenue the sale of energy that have not yet been invoiced, but that has already 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 average daily energy consumption and applicable rates to the customers of the Company.

Other Revenues
The Company recognizes connection and reconnection charges, electric pole rentals, and wheeling charges when the service is rendered. These charges are presented under Other Revenues in the Statement of Income.

o. Use of Estimates
The preparation of 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 relevant facts and judgments. Actual results could differ from those estimates. The most significant estimates include but are not limited to, the estimated lifespan for depreciation and amortization, allowances for uncollectible accounts receivable, estimates of future cash flows associated with asset damages, contingency losses, collection or reimbursement of the fuel component adjustment account and estimated unbilled revenue.

p. Intangible Net
The Company's intangible assets consist of the development costs and software licenses of applications obtained for internal use. The Company amortizes intangible assets using the straight-line method based on a 15 year estimated useful lives. Intangible assets are reviewed annually to determine any adverse condition or a change in circumstances that would require a change in the remaining useful lives.

q. Concentration in Credit Risk
The Company is solely dedicated to the distribution and marketing of electric energy to customers located in its concession area. 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. In addition, the Company believes that its potential credit risk is adequately covered by the allowance for uncollectible 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 an environmental legislation creating an agency for the protection of the environment (Autoridad Nacional del Ambiente ("ANAM") in Spanish) and imposing new environmental standards which have an effect in the Company's operations. Failure to comply with the laws, rules and regulations, could account for the Company on having to make 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 as a result of new assessments and remediation efforts undertaken or as additional technical and legal information becomes available. As of December 31, 2011 and 2010, the Company has determined that there are no breaches of rules and regulations that obliged it to establish a provision for damages or environmental remediation and since the company provides only for energy distribution services, it considers that in case of requiring to establish a liability for asset retirement obligations with risks to the environment this would be immaterial

Environmental costs are capitalized if the costs extend the useful lives of the property, increase their capacity and mitigate or prevent contamination that could result from future operations. Costs related to environmental contamination treatment and clean-up are charged to expenses.

s. Currency

Records are maintained in Balboas and financial statements are stated in that currency. The Balboa, the unit of currency in the Republic of Panama, is at par and of freely exchangeable with the dollar of the United States of America. The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal tender.

t. New Pronouncements

The Company adopted or will adopt, if applicable, recent accounting pronouncements listed below in accordance to their respective effective date.

In May 2011, the FASB issued Accounting Statement Update 2011-04 (ASU 2011-04) "Fair Value Measurements (ASC 820) - Amendment to achieve common measurement of fair value disclosure requirements under Generally Accepted Accounting Standards in the United States of America and the International Financial Reporting Standards (IFRS)." This update does not change the requirements when the fair value measuring is applied, to the contrary, it rather provides some clarification of how to measure and disclose the fair value. This update contains new requirements for disclosures: (1) for level 3, quantitative information on unobservable entries, description of the measurement process and qualitative discussion of the sensitivity of the measurement, (2) information on the use of non-financial assets when the use of the asset is not the best or most optimal, (3) the level of the hierarchy for assets and liabilities not measured at fair value but whose disclosure is required, (4) non-public companies are exempt in some disclosures including transfers between levels 1 and 2 of hierarchy, the reason for these transfers and the qualitative discussion of the sensitivity of the measurement at level 3. This update is effective for non-public companies for annual periods beginning after December 15, 2011 and for public companies for interim and annual periods beginning after December 15, 2011. The

Company does not expect the adoption of this update to have an impact on the financial statements.

3. Accounts Receivable – Trade and other, net

Accounts receivable – trade and other, net are as follows:

	2011	2010
Customers	US$ 46,757,251	US$ 43,484,564
Government and municipal entities	8,539,087	7,662,017
	55,296,338	51,146,581
Unbilled revenue	8,914,850	7,802,620
Government subsidy	10,754,808	3,794,450
Other	2,315,534	3,933,619
	77,281,530	66,677,270
Allowance for doubtful accounts	(8,822,653)	(8,408,890)
	US$ 68,458,877	US$ 58,268,380

The total accounts receivable from clients include amounts owed because of subsidies that the State gives clients through the Stabilization Rate Fund that is presented in the note as Government Subsidy. These subsidies are given to clients that consume less than 500 Kwh each month and are also given when the government agrees to subsidize other rate adjustments.

As of December 31, 2011 the Company charged against the uncollectible accounts the amount of US$1,011,808 (2010: US$1,761,816). As of December 31, 2011, the Company recovered balances of accounts previously written-off for the amounts of US$325,661 (2010: US$191,828).

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, if any. The statutory income rate tax is 30%. Deferred income tax is recognized for the effect 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 the tax benefits will not be totally realized.

The difference between the provision for income tax for the years that ended December 31, 2011 and 2010, and the income tax calculated using the enacted statutory corporate tax of 30% for income before the income tax reported on the financial statements is due to the following:

	2011	2010
Income Tax:		
Calculated at expected statutory rate	US$13,044,649	US$10,932,283
Decrease in income tax due to non-taxable income	(34,728)	(29,046)
Increase in income tax due to non-deductible expenses	41,688	36,772
Total Income Tax	US$13,051,609	US$ 10,940,009

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

	2011	2010
Current deferred income tax assets:		
Provision for doubtful accounts	US$ 580,032	US$ 758,740
Regulatory liability	-	571,095
Others	282,922	256,907
Total deferred income tax for regulatory assets	US$ 862,954	US$ 1,586,742
Current deferred income tax liability – Fuel component adjustment	(7,022,205)	-
Current deferred income tax assets (liability), net	US$(6,159,251)	US$ 1,586,742

	2011	2010
Non-current deferred income tax asset:		
Provision for contingencies	US$ 23,582	US$ 51,933
Non-current deferred income tax liabilities:		
Severance fund	(169,707)	(151,070)
Depreciation expense	(2,519,701)	(2,656,438)
Non-current deferred income tax liabilities, net	US$(2,665,826)	US$ (2,755,575)

In accordance with tax regulations, the last three years of companies' income tax returns in Panama are open to audit. Years starting as of 2009 are subject to examination by tax authorities, although no audit is currently scheduled or in process. Years prior to 2009 are considered closed years. Companies are also subject to audit by Panamanian tax authorities regarding compliance with stamp tax regulations.

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 assessing items related to this limitation, the Company must assess whether each tax position can be sustained 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. By adopting this interpretation, 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 tax authorities to allow these positions when and if examined and has a high level of confidence in the technical merits of these positions. Accordingly, Management expects the full amount of the tax position to be finally stated in the financial statements.

Investment Tax Credit

During 2001, the Company received and investment tax credit for US$13,673,745, which was granted by the Panamanian Government under an incentive law that promoted investments in infrastructure to expand 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 fiscal credit can be consumed in the coming years. The Company made use of this fiscal credit in the course of the years up until December 31, 2008, in which it used the total amount of this credit.

Due to the fiscal benefit received, the Company is not allowed to deduct for tax purposes the depreciation corresponding to the investment in infrastructure in the amount of US$13,673,745, of which the total tax effect will be of US$4,102,123.

5. Debt

Short-Term Debt

Obligations for revolving credit lines are detailed as follows:

	2011	2010
Revolving short-term credit lines:		
HSBC Bank (Panama), S. A.	US$10,000,000	US$ -

The Company has revolving credit lines available with The Bank of Nova Scotia, Banco General,S.A., HSBC Bank (Panama), S.A., Banco Panama, S.A. and Banco Nacional de Panama with a total of credit lines as of to December 31, 2011 of US$100,000,000 (2010: US$102,500,000), with annual interest rates ranging between one (1) to three (3) or six (6) months LIBOR , plus a margin between 1.25% to 2.5%. These unsecured credit facilities are available for a maximum period of one year. Floor rates for these revolving agreements are between 2% to 4%. The Company uses these credit facilities as needed for working capital or any other needs. These credit lines have an order of priority "pari passu" as any other "senior" unsecured and unsubordinated obligations that the Company has. The credit lines include among other provisions a coverage debt indicator of the debt, which establishes a debt limit that does not exceed 3.25 of its EBITDA.

Long-Term Debt

The balance of the long- term notes is as follows:

	2011	2010
Long-Term Notes Payable:		
Senior Notes	US$ 100,000,000	US$100,000,000
Corporate Bonds	20,000,000	20,000,000
Minus: Senior Notes discount	(652,606)	(697,846)
Total Long-term debt	US$119,347,394	US$119,302,154

The Company has notes payable under a senior debt agreement ("Senior Notes") totaling US$100,000,000, which is recorded at US$99,347,394, net of US$652,606 unamortized discount at December 31, 2011. The notes have a fixed interest rate of 7.6 %, payable semi-annually, 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 complying with certain conditions including payment of a specified make-whole premium. The obligations include among other provisions a debt coverage ratio which provides a debt limit not exceeding 3.25 times of its EBITDA.

In a public offering on October 20, 2008, 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, B/20,000,000 of this corporate bond offering was subscribed and issued with Banco General, S.A. The bonds have a priority order "pari passu" among equal in right of payment with all other unsecured and unsubordinated obligations. The bonds will bear interest of LIBOR plus 2.375% per annum, payable on a quarterly basis. Principal is due upon maturity. The proceeds from the offering of the bonds was used to fund current and capital expenditures and for general corporate purposes. The bonds are subject to additional terms and conditions which are customary for these transactions. Bond's 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 offer.

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,
	2011	2010	2011	2010
Purchase of energy	$ 96,885,994	$ 84,412,597	$ 394,323,549	$ 332,095,316
Transmission charges	3,237,237	2,086,255	12,777,284	9,427,423
Fuel component adjustment	7,546,000	(5,617,000)	(25,311,000)	17,689,000
Total purchase of energy and transmission charges, net	$107,669,231	$ 80,881,852	$ 381,789,833	$ 359,211,739

Regulatory asset (liability)
Changes derived from the under/over collection of these energy costs are reflected under purchase of energy and transmission charges, net in the Statement of Income. The cumulative amount receivable/payable is presented as a regulatory asset (liability) on the balance sheets until these amounts are billed or reimbursed to customers. The regulatory asset (liability) includes six months with actual fuel price information, and six months of estimated fuel price information.

For the last several years, the regulatory asset (liability) has not been fully passed through to distribution company customers in form of a tariff increase. The amount that has not been invoiced to costumers has been subsidized by the Panamanian Government. As of December 31, 2011, the accounts receivable from the government subsidy was for US$10,754,808 (2010: US$3,794,450). (Note 3)

As of December 31, 2011, the Company has registered in books regulatory assets in the amount of US$23,407,351 (2010: US$1,903,649), and are presented as a "Regulatory asset/ liability" in the balance sheet, as a consequence of the variance resulting between the cost of the energy considered in the actual generation and transmission revenues and the actual cost of energy purchased. The regulatory asset includes an account receivable of US$9,380,351, accumulated during the first semester of 2011 to be recovered from customers in the tariff adjustment at first semester of 2012, and a receivable of US$14,027,000 accumulated during the second semester of 2011 to be recovered from customers in the tariff adjustment of the second semester of 2012.

7. Commitments and Contingencies

Commitments

As of December 31, 2011 the Company had signed energy and long-term firm capacity purchase contracts with the following generation companies:

Company	MW	Begins	Ends
AES Panama - Está	48.72	November 20, 2003	November 19, 2013
Enel Fortuna	80/120	January 01, 2009	December 31, 2018
Termica del Caribe	2.85	March 01,2009	June 30, 2014
Generadora del Atlantico	30	June 01, 2009	June 30, 2014
Energía y Servicios de Panama, S.A.	0.96	July 01, 2009	June 30, 2014
Bahía Las Minas	108	January 01, 2010	December 31, 2018
Panam Generating	20	January 01, 2010	December 31, 2019
Sistema de Generacion, S.A.	according to demand	July 01, 2010	June 30, 2020
Paso Ancho Hidro-Power	4	October 05,2010	October 04,2018
Termica del Caribe	22.5	January 01,2011	December 31, 2018
Panam Generating	60	January 01,2011	December 31, 2020
AES Panama	39	January 01,2012	December 31, 2012
Energía y Servicios de Panama, S.A.	1.49; 1.15; 9.31	January 01, 2012	December 31, 2014
Enel Fortuna	1.2; 0.92; 7.5	January 01, 2012	December 31, 2014
Generadora del Atlantico	0.5; 0.38; 3.12	January 01, 2012	December 31, 2014
Autoridad del Canal de Panama	3.6; 2.77; 22.5	January 01, 2012	Diciembre 31, 2014
Generadora Pedregalito	0.86	January 01 , 2012	December 31, 2014
Caldera Energy Corp.	0.65	January 01, 2012	December 31, 2014
Generadora Río Chico	0.46	January 01, 2012	December 31, 2014
Generadora Alto Valle	0.4	January 01, 2012	December 31, 2014
Generadora Hidro Piedra	0.16	January 01, 2012	December 31, 2014
Electrogeneradora del Istmo	0.15	January 01, 2012	December 31, 2014
AES Panama	23	January 01, 2013	December 31, 2021
Enel Fortuna	8.05	January 01, 2013	December 31, 2022
AES Panama	9.43	January 01, 2013	December 31, 2022
Hidro Caisan	5.092	January 01, 2013	December 31, 2022
Electron Investment	10.35	January 01, 2013	December 31, 2022
Alternegy	18.4	January 01, 2013	December 31, 2022
Bontex	4.6	January 01, 2013	December 31, 2022
Enel Fortuna	7.872984	January 01, 2015	December 31, 2029
Consorcio Hidroelectrico Tabasara	3.17373	January 01, 2015	December 31, 2029
Hidroelectrica del Teribe	2.667	January 01, 2015	December 31, 2029
Energía y Servicios de Panama, S.A.	2.667	January 01, 2015	December 31, 2029
Generadora Pedregalito	1.0502646	January 01, 2015	December 31, 2029
Caldera Energy Corp.	0.8001	January 01, 2015	December 31, 2029
Generadora Río Chico	0.6440805	January 01, 2015	December 31, 2029
Generadora Alto Valle	0.6128766	January 01, 2015	December 31, 2029
Desarrollos Hidroelectricos Corp.	0.5075301	January 01, 2015	December 31, 2029
Hidroelectrica San Lorenzo	0.3555111	January 01, 2015	December 31, 2029
Electrogeneradora del Istmo	0.333375	January 01, 2015	December 31, 2029

In compliance with the Electricity Law of 1997, 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 annually contracts about 81% to 98% of its total energy requirements via purchase agreements on the contract market. For the years ended December 31, 2011 and 2010, the Company purchased approximately 98%, of the energy required through the purchase of energy on the contract market. These purchase agreements include both a fixed charge based on energy capacity requirements and a variable charge based on the energy consumed. These purchase contracts for purchase of energy and capacity qualify as accounting exceptions for derivative instruments that fall within the conditions for normal purchases and normal sales according to the prescriptions in ASC 815, "Derivatives and Hedges".

The Electric Transmission Company (ETESA) is responsible for preparing the bid processes for energy purchase on behalf of the distribution companies. The bids are received, evaluated and awarded by ETESA and then assigned to each distribution company based on their requirements. Distribution companies are obligated to sign contracts based on said awarded bids.

The company has several unconditional long-term contractual obligations, related to the purchase of energy capacity. The amount of incremental payments required for such obligations, are presented as follows:

Year	Payment Obligations
2012	US$ 78,679,407
2013	92,397,733
2014	90,937,799
2015	83,527,162
Hereafter	538,253,404
	US$883,795,505

As of December 31, 2011, the Company has expensed the amount of US$92,042,791 (2010: US$86,850,787), in long-term unconditional contracts, recorded under purchase of energy and transmission charges, net on the Statement of Income.

Every four years the Company and the workers' Union, negotiate a Collective Agreement. The current agreement is effective since February 2008, and it does not maintain or consider additional material obligations besides those established in the labor law.

Operating Leases
The Company has entered into a seven-year non-cancelable operative lease agreement, whose term began in May 2007, for the use of offices and operational facilities. As of December 31, 2011, the minimum rental payments required under this operating lease with initial or remaining non-cancellable lease terms in excess of one year are:

Years	Payment Obligations
2012	US$ 512,376
2013	527,748
2014	177,641
	US$ 1,217,765

As of December 31, 2011, total operating leasing expenses was US$1,813,709 (2010: US$1,707,014).

Guarantees
The Company has provided limited guarantees to generation companies in order to provide credit assurance and performance of 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$34,894,696. The Company has also issued a guarantee in favor of the ASEP in the amount of US$8,000,000 in compliance with Clause 53 of the Concession Contract.

The Company has several standby letters of credit for US$4,143,621 in favor of ETESA, guaranteeing the payment of transmission costs and energy purchases in the energy exchange market.

Concession Contract
The Company has the exclusive right to install, own and operate an energy distribution network, and to supply energy to end customers with the exception of 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 for the sale of 51% ownership share currently held by Panama Distribution Group, S.A., who has the right to set the asking price for the tender (by making its own bid) and will only be required to sell its shares of the Company if a higher bid 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 concession 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, prohibits the separation of the majority of shares packages, it requires the delivery of periodic, technical and financial information to the ASEP, compliance with technical quality standards (quality standards, measurements 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.

Contingencies

As a result of issues generated from the ordinary course of business, the Company is, or could be involved in lawsuits for tax, labor, civil, and regulatory matters before various Courts, regulatory commissions and governmental agencies. The Company recognizes a provision when it is probable that a liability has been incurred and the amount of the loss associated can be reasonably estimated. The Company is not capable of predicting the final outcome of the different judicial processes, but after consideration over these provisions it is not expected that the final outcome in these processes have a significant effect on the financial considerations or in the operational results of the Company.

As of December 31, 2011, the Company has reserve the amount of US$78,610 (2010: US$173,110), to cover possible losses resulting from any third-party claims. These reserves are presented as “Reserve for contingencies” in the balance sheet. The following is the most representative case:

Litigation

The ASEP through the Resolution AN No.3473- Elec of May 7, 2010, amended Resolution JD-5863 from February 17, 2006, containing title IV of the distribution and marketing tariff regime, which, according to Article No. 22, entitles the ASEP to review at the end of each tariff period, the maximum allowed income approved versus the actual revenue received, to determine if the variations are within reasonable margins. This revision does not takes into account variations in sales, the amount and/or type of customers, and/or the input costs or labor, differently than what is reflected by the consumer price index (CPI) of the General

Comptroller Office of Panama. Although the procedure for calculating and adjusting any possible excesses has not yet been defined and established by the ASEP, the position of the Company's management is that by December 31, 2011, there is no contingency loss to be recorded in the financial statements as a consequence of this Resolution. This conclusion is based on: i) a final outcome still in process at the Supreme Court of Justice related to the appeal of this Article filed in the Supreme Court by another power distribution company; ii) in case the regulatory authority approves the resolution to adjust the unreasonable excess, the Company has the right to appeal in the Supreme Court of Justice, which is an independent body and the last instance to decide on this particular issue; iii) there is no written or approved procedure for calculating and adjusting what could be deemed by the regulator as an unreasonable excess, therefore any calculation would be highly subjective. An unfavorable resolution to this effect could have a negative impact on the financial statements of the Company. In spite of the above, the Resolution AN-3574-Elec dated June 25, 2010, in which the "maximum allowed income" is approved for the tariff period from July 2010 to June 2014, does not contain the adjustments related with the previous tariff period (July 2006 to June 2010).

8. Fair Value of Financial Instruments

The fair values of financial instruments as of December 31, 2011 and 2010 are based on the information available at the date of the balance sheets. The Company is not aware of any factors that may significantly affect the estimated fair value of the most common financial assets and liabilities such as cash, trade receivables, accounts payable, short- term and long-term debt; and customer deposits. The Company uses the following methods and assumptions for estimating the fair value of financial instruments:

Trade Receivable, Accounts Payable, Short-Term Debt and Customer Deposits
The carrying amount approximates fair value due to the short maturity of these instruments.

Long-Term Debt
The fair value of long-term debt with variable interest rate for the issuance of the corporate bonds for US$20,000,000 and for long-term debt with a fixed rate for the issuance of "Senior" bonds for US$100,000,000 has been determined using a methodology of discounted cash flows based on available market information. These estimates are subjective in nature and involve uncertainties; as a consequence, the actual results can be different that the estimates.

The estimated fair values of financial instruments are as follows:

	2011		2010	
	Carrying Amount	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	US$ 119,347,394	US$ 137,827,322	US$ 119,302,154	US$ 135,846,928

9. Subsequent Events

The Company evaluated all the events and transactions that took place between the dates on the balance sheet and the date on which the financial statements were issued and determined that no additional disclosures are required.