Free English Language Translation
From Spanish Version

Elektra Noreste, S. A.

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

Report and Financial Statements
December 31, 2012 and 2011

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

Index to Financial Statements
December 31, 2012 and 2011

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Elektra Noreste, S. A. (a 51% owned subsidiary of Panama Distribution Group, S. A.) (the "Company"), which compromise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, of changes in shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Elektra Noreste, S. A. as of December 31, 2012 and 2011, the results of its operations and its cash flows for the years then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

PricewaterhouseCoopers (Signed)

March 8, 2013
Panama, Republic of Panama

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

Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	US$ 41,773,932	US$ 3,398,707
Accounts receivable:		
Trade and others, net (Notes 3 and 11)	94,148,307	75,494,029
Regulatory asset (Notes 2 and 13)	-	16,372,199
Accounts receivable, net	94,148,307	91,866,228
Inventory	14,880,139	7,974,027
Deferred income tax (Note 7)	1,519,420	-
Other current assets	1,276,641	1,477,234
Total current assets	153,598,439	104,716,196
Property, plant, and equipment, net (Note 4)	305,705,566	277,962,950
Other assets:		
Unemployment trust fund	2,126,939	1,814,687
Security deposits	103,573	114,056
Intangibles, net (Note 5)	7,502,318	7,393,897
Tools and spare parts	517,303	932,733
Total other assets	10,250,133	10,255,373
Total assets	US$ 469,554,138	US$ 392,934,519

	2012	2011
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable:		
Generation and transmission (Notes 6 and 11)	US$ 64,344,564	US$ 65,059,080
Suppliers (Note 6)	16,475,758	18,026,316
Construction contracts	12,835,758	9,994,230
Regulatory liability (Notes 2 and 13)	1,865,247	-
Income tax payable	17,630,523	3,222,049
Deferred income tax (Note 7)	-	4,048,705
Customers' deposits (Note 8)	2,029,216	1,564,343
Withholding taxes to employees	641,189	358,346
Total accounts payable	115,822,255	102,273,069
Short-term debt (Notes 9 and 16)	-	10,000,000
Interest payable on debt	3,835,057	3,670,376
Accrued expenses	2,811,260	2,234,307
Total current liabilities	122,468,572	118,177,752
Long-term debt (Notes 9 and 16)	196,263,963	117,070,700
Customers' deposits and other liabilities:		
Deferred income tax (Note 7)	2,549,031	2,665,826
Customers' deposits (Note 8)	4,483,248	4,724,360
Provision for contingencies (Note 15)	78,610	78,610
Other accrued liabilities	2,334,959	2,305,629
Total customers' deposits and other liabilities	9,445,848	9,774,425
Total liabilities	328,178,383	245,022,877
Commitments and contingencies (Note 15)		
Shareholders' equity		
Authorized and issued common stock: 50,000,000 shares without par value	106,642,962	106,642,962
Stock in treasury: 160,031	(544,087)	(544,087)
Retained earnings	35,276,880	41,812,767
Total shareholders' equity	141,375,755	147,911,642
Total liabilities and shareholders' equity	US$ 469,554,138	US$ 392,934,519

The notes on pages 7 to 35 are an integral part of these financial statements.

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

Income Statements
For the years ended December 31, 2012 and 2011

	2012	2011
Revenues		
Energy sales (Note 11)	US$ 539,909,412	US$ 481,386,206
Other revenues (Note 12)	10,335,629	9,633,127
	550,245,041	491,019,333
Purchase of energy and transmission charges, net (Notes 11 and 13)	437,450,512	388,824,985
Gross margin on distribution	112,794,529	102,194,348
Operating Expenses		
Salaries and other personnel-related expenses	8,884,992	8,688,835
Seniority premium and severance	399,493	261,597
Allowance for doubtful accounts, net of recoveries	983,173	1,099,909
Repair and maintenance	3,175,275	2,852,553
Professional services	14,520,558	13,687,758
Depreciation and amortization	16,885,962	16,182,172
Administrative and other	10,334,357	8,907,963
Loss on disposal of fixed asset (Note 4)	776,053	85,002
Total operating expenses	55,959,863	51,765,789
Operating income	56,834,666	50,428,559
Other Income (Expenses)		
Other income	951,433	512,041
Interest income	1,009,386	1,127,973
Interests expense (Note 14)	(8,282,478)	(8,586,409)
Total other expenses	(6,321,659)	(6,946,395)
Income before income taxes	50,513,007	43,482,164
Income tax (Note 7)		
Current	20,920,100	7,505,910
Deferred	(5,684,922)	5,545,699
	15,235,178	13,051,609
Net income	US$ 35,277,829	US$ 30,430,555

The notes on pages 7 to 35 are an integral part of these financial statements.

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

Statements of Changes in Shareholders' Equity
For the years ended December 31, 2012 and 2011

	Common Stock	Treasury Stock	Retained Earnings	Total
Balance as of January 1, 2011	US$ 106,642,962	US$ (544,087)	US$ 25,501,882	US$ 131,600,757
Net income	-	-	30,430,555	30,430,555
Dividends paid	-	-	(13,500,000)	(13,500,000)
Accredited prepaid dividend tax	-	-	540,000	540,000
Prepaid 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
Net income	-	-	35,277,829	35,277,829
Dividends paid	-	-	(42,432,437)	(42,432,437)
Accredited prepaid dividend tax	-	-	1,124,737	1,124,737
Prepaid dividend tax paid	-	-	(506,016)	(506,016)
Balance as of December 31, 2012	US$ 106,642,962	US$ (544,087)	US$ 35,276,880	US$ 141,375,755

The notes on pages 7 to 35 are an integral part of these financial statements.

Elektra Noreste, S. A.

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

Cash Flows Statements
For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net income	US$ 35,277,829	US$ 30,430,555
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,885,962	16,182,172
Loss on disposal of fixed asset	776,053	85,002
Provision for doubtful accounts, net of recovery	983,173	1,099,909
Amortization of discount on bonds payable	48,790	45,240
Amortization of debt issuance costs	180,562	167,305
Provision for seniority premium net of contribution to unemployment trust fund	33,817	(2,176)
Deferred income tax	(5,684,922)	5,545,699
Regulatory asset and liability	18,237,446	(18,275,848)
Net changes in operating assets and liabilities:		
Accounts receivable	(19,637,451)	(18,425,559)
Inventory	(6,906,112)	(2,343,942)
Other assets	522,354	(1,247,493)
Accounts payable-trade and other liabilities	1,712,396	17,186,278
Income tax	14,408,474	(6,998,995)
Seniority premium	(100,289)	(59,953)
Net cash provided by operating activities	56,738,082	23,388,194
Cash flows from investing activities		
Acquisition of property, plant and equipment	(45,821,743)	(38,317,453)
Proceeds from sales of equipment	308,691	463,137
Net cash used in investing activities	(45,513,052)	(37,854,316)
Cash flows from financing activities		
Payment of short-term debt	(10,000,000)	-
Proceeds from debt issuance and new financing	80,000,000	10,000,000
Debt issuance cost	(1,036,089)	-
Accredited prepaid dividend tax	1,124,737	540,000
Prepaid dividend tax paid	(506,016)	(1,159,670)
Dividends paid	(42,432,437)	(13,500,000)
Net cash provided by (used in) financing activities	27,150,195	(4,119,670)
Net increase (decrease) in cash and cash equivalents	38,375,225	(18,585,792)
Cash and cash equivalents at beginning of year	3,398,707	21,984,499
Cash and cash equivalents at end of year	US$ 41,773,932	US$ 3,398,707
Supplemental disclosure of cash flows		
Cash paid during the year for:		
Interest, net of amounts capitalized	US$ 7,761,175	US$ 8,227,579
Income taxes	US$ 6,006,640	US$ 14,504,905

The notes on pages 7 to 35 are an integral part of these financial statements.

1. Nature of Operations

Elektra Noreste, S. A. (the "Company") is a corporation formed 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 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 common shares of the Company, while the Government of Panama and former employees of IRHE own 48.25% and 0.43%, respectively. The remaining amount of shares is held as treasury stock.

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

According to the concession contract described in Note 15, the Company has exclusive rights for the distribution and commercialization of electric energy to customers located in the geographical areas of Panama East, Colon, Panama Bay, the Comarca Kuna Yala and Darien. Exclusive rights in the distribution phase also includes "large customers," which are defined by Law 6 dated February 3, 1997, as costumers with a peak demand over 100 KW per site, who are allowed 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 the preparation of the accompanying financial statements are as follows:

Basis of 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.

2. Summary of Most Relevant Accounting Policies (Continued)

Cash and Cash Equivalents

All liquid investments with original maturity dates of three months or less are classified as cash equivalents.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and bear interest on delinquent balances. Interests are not recognized until the customer account is closed, which occurs approximately 60 days after electric power service has been suspended. It is the Company's policy to review outstanding accounts receivable balances on a monthly basis and adjust the allowance for uncollectible accounts.

The Company establishes an allowance for losses if it determines that amounts may not be collectible. The Company estimates the allowance based on the length of time the debt has been past due, factors or conditions affecting its customers, and historical experience. Account balances are written off after collection efforts and the potential for recovery are considered remote. The Company does not have any off-balance-sheet credit risk related to its customers.

Inventory

Inventory primarily includes materials and supplies for internal consumption. The tools and spare parts are considered part of the inventory but are classified as non-current assets. Inventory is stated at cost or at market value, the lower of the two. Cost is determined using the average cost method.

Property, Plant, and Equipment

Property, plant and equipment purchases and construction in progress are recorded at original cost, which includes: material, labor, transportation costs, overhead and financing 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, plant and equipment are capitalized as well as disbursements for major improvements. 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 condition it had when originally purchased are also expensed. In addition, the Company also capitalizes interest during the construction period in accordance with the (Accounting Standard Codification) ("ASC") No. 835 "Interest," issued by the Financial Accounting Standard Board ("FASB").

2. Summary of Most Relevant Accounting Policies (Continued)

Property, Plant, and Equipment (continued)
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, in accordance with 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 expected deducted future cash flows generated by the asset or group of assets, a loss due to deterioration is recognized and the asset is recorded at market value. The fair value can be determined by the use of quoted market prices, appraisals or other valuation techniques, such as expected future discounted value. Management's judgment is required in both deciding whether testing for recoverability is necessary and for estimating the discounted cash flows. As of December 31, 2012 and 2011, no impairment of long-lived assets was identified.

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

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

Poles, towers, and accessories	30 years
Electric transformers	30 years
Underground conductors and ducts	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
Communications equipment	8 to 25 years
Office furniture and equipment	5 to 20 years

Debt Issuance Costs
The Company defers all costs related to the issuance of long-term debt. These costs include commission costs 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.

2. Summary of Most Relevant Accounting Policies (Continued)

Purchase of Energy and Transmission Charges
The Company is required by law to guarantee through contracts the coverage of 100% of its regulated costumers' demands for the next 24 months. The strategy of energy purchase is based on holding medium and long-term contracts to protect costumers of the strong fluctuations in generation charges rates. These contracts are considered executory in nature, and do not transfer to the Company the right to use the related property, plant or equipment. These contracts for the purchase of energy and capacity qualify under the exceptions of accounting for derivative instruments, since they comply with the conditions for normal purchase and normal sales as prescribed by ASC 815, "Derivatives and Hedging." In addition the Company also engages in short-term hourly purchases in the wholesale market, which is administered by the Centro Nacional de Despacho ("CND"). The Company recognizes the current cost of energy purchases resulting from these contracts in the statement of income.

In addition, the Company also pays a regulated rate to Empresa de Transmision Electrica, S. A. ("ETESA"), a company owned 100% by the Panamanian Government, for the connection and use of the transmission system. ETESA is responsible for expanding and upgrading the transmission system to meet the requirements of the growth in demand and the stability of the system. 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.

Income Tax
The income tax includes both the current and deferred tax. The current income tax refers to the estimated income tax payable on taxable income of the fiscal year using the rate in effect at the balance sheet date. Deferred income tax is recognized for the effects of all temporary differences between the book and tax basis of assets and liabilities.

The deferred income tax is accounted for under the asset and liability method as prescribed by ASC 740, "Income Tax". The deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the value of assets and liabilities presented in the financial statements and their respective tax basis. Deferred tax assets and liabilities are measured based on the application of the tax rate established for taxable income in the year 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. A valuation allowance is recorded to reduce the value of deferred tax assets, when it is not probable that tax benefits can be completely realized.

2. Summary of Most Relevant Accounting Policies (Continued)

Customer Deposits

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

The ASEP has issued resolutions AN 411-Elec (November 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, in other words, the client has had no more than three late payments in a twelve-month period, the deposit shall be returned to the customer. The Company classifies the deposits of customers who do not meet the condition of having good payment record as non-current liabilities.

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 15)

Seniority Premium and Unemployment Trust Fund

According to the Panamanian Labor Code, upon the termination of any employee contracted for an indefinite period of time, regardless the causes; the employee is entitled to a seniority premium at the rate of one week's salary for every year of work, since they were first employed. Seniority premiums represent 1.92% of total salaries paid and are presented under "Other accrued liabilities" on the balance sheet.

The Labor Code, as amended by Law 44 of August 12, 1995 requires all employers to establish an unemployment trust fund to cover the payment of the seniority premium and severance pay for unjustified dismissal or justified resignations. The Company maintains a trust fund through an authorized private entity, Progreso, S. A., which acts as trustee to secure severance fund liability. This trust fund is reported on the balance sheet under "Unemployment Trust Fund".

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 created. The Panamanian Government retains an approximate fifty-one percent (51%) of participation in the hydraulic generating companies, a forty-nine percent (49%) participation in the thermoelectric-generating companies and distribution companies, and a one hundred percent (100%) participation in the transmission company. The Panamanian Government retained 48.25% of the Company's shares and 0.43% is owned by former IRHE employees.

2. Summary of Most Relevant Accounting Policies (Continued)

Related Parties (continued)
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.

Regulated Activity
The Company is subject to regulation by the ASEP. This entity is responsible for regulating and establishing the final rates the Company charges to its customers. The Company maintains its accounting records in accordance with the Uniform System of Accounts prescribed for electric utilities by the ASEP.

The regulated system under which the Company operates allows for any excess or deficiency between the estimated cost of energy considered in the rate and the actual cost incurred by the Company to be included as a compensatory adjustment to be recovered from or returned to customers in the next tariff revision. Any excess in the cost of energy charged to customers is accrued in accounts payable in the general balance and causes a reduction in the next rate review to be applied to customers. In the same way, any shortfalls in energy costs charged to customers is accumulated in the account receivable and causes an increase in the new rate revision to be recovered from customers.

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

Regulatory asset and (liability) reflected in the Company's balance sheets relate to the following:

	2012	2011
Regulatory asset (Note 13)	US$ -	US$ 16,372,199
Regulatory liability (Note 13)	(1,865,247)	-
Deferred income tax asset (liability) (Note 7)	559,574	(4,911,659)
	US$ (1,305,673)	US$ 11,460,540

2. Summary of Most Relevant Accounting Policies (Continued)

Regulated Activity (continued)
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 the related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any deterioration to other assets, including property, plant and equipment exists and, if deterioration exists, they must be written down to their fair value.

Revenue Recognition
Sale of energy
The Company recognizes its revenues for energy sales when the energy 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 customers include energy cost and distribution components. The energy cost component operates as a "pass-through" and considers the energy purchased and transmission charges while the distribution components is set by the ASEP to allow distribution companies to recover the operating cost, 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, while 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 where electricity has been consumed by customers. This revenue is recorded as unbilled revenue as part of the accounts receivable on the balance sheet and is calculated based on actual daily average energy and applicable rates to the customers of the Company.

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

Use of Estimates
The preparation of the financial statements in accordance with US Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets, 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 on the evaluation made by the Administration of the relevant facts and judgments. Actual results could differ from these estimates. The most significant estimates include but are not limited to, the useful life for depreciation and amortization, allowances for doubtful accounts, estimates of future cash flows associated with asset deterioration, loss contingencies, recovery or refund of regulated asset (liability).

2. Summary of Most Relevant Accounting Policies (Continued)

Intangible, Net
The Company's intangible assets consist of: i) cost of development and licenses of applications obtained for internal use, which are amortized using the straight-line method based on a useful life of up to 15 years ii) the compensations and indemnities paid to constitute easements required for the passage of its distribution grid. These easements are constituted as permanents so the Company classifies these assets as having an indefinite useful life, therefore are not subject to amortization.

Concentration of Credit Risk
The Company is exclusively engaged in the distribution and marketing of energy to customers located in its concession area. The Company does not believe that significant risk of loss due to concentration of credit risk exists, given the large number of customers that comprise its customer base and their geographical dispersion. Additionally, the Company also believes that its potential credit risk is adequately covered by the allowance for doubtful accounts.

Environment
The Company is subject to a number of laws and regulations related to the environment, health and safety. In July 1998, the Panamanian Government passed a law creating an environmental protection agency (National Environmental Authority "ANAM") and imposed new environmental standards for the protection of the environment that have an effect on the Company's operations. Failure to comply with these standards, laws, and regulations for the protection of the environment may require additional investments or may adversely affect the Company's financial results. Provisions for issues related to the environment are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing regulations. These are adjusted periodically due to new assessments and remediation efforts or as additional technical and legal information become available. As of December 31, 2012 and 2011, the Company has determined that there are no breaches of rules and regulations that require it to establish a provision for damages or remediation to the environment and given that the company only provides the service of energy distribution it considers that in case it is required to establish a liability for obligations of disposition of assets with risks to the environment, this would be immaterial.

Costs for environmental protection are capitalized if they extend the useful life of the property, increase its capacity and mitigate or prevent contamination from future operations. Costs associated with the treatment and environmental pollution clean-up are charged to expense.

Monetary Unit
Records are kept in balboas and the presentation currency of the financial statements is the dollar of the United States of America. The balboa is the monetary unit of the Republic of Panama; it is at par and is of free exchange with the dollar of the United States of America (US$). The Republic of Panama does not issue paper currency and instead uses the US$ as legal tender.

2. Summary of Most Relevant Accounting Policies (Continued)

New Standards

The Company adopted or will adopt, the recent accounting standards listed below, if applicable, according to their respective effective dates.

In October 2012, the FASB issued the Accounting Standard Update 2012-04 (ASU 2012-04) "Technical Corrections and Improvements." This update clarifies the Codification, corrects the application of guidelines, and makes minor improvements to the Codification, which is not expected to have significant effects on current accounting practice or create a significant administrative cost to most organizations. In addition, the amendments will make the Codification easier to understand for the measuring guide of the fair cost to be easier to apply by removing inconsistencies and by providing the necessary clarifications. This amendment is divided in two sections: Technical Corrections and Updates (Section "A") and Amendments Related to the Fair Value Measurements (Section "B"). The amendments in Section "A" have been categorized as follows: 1) Amendments to source literature, which were due to differences between them and the Codification; 2) Clarification and correction in the reference guides, which provide clarification through updates in the writing style, correction of references or a combination of both, and 3) Relocation Guide, it mainly moves guidance from their current location in the Codification to a more appropriate location. The amendments in Section "B" are intended to conform terminology and make clear certain guidance in various topics of the Codification for it to fully reflect the fair value measurement and the requirements of disclosure to Topic 820. This update will be effective for public entities for fiscal years beginning after December 15, 2012 and for non-public entities for fiscal years beginning after December 15 2013. The Company does not expect to have an impact on the financial statements when adopting this update.

Reclassifications

Some line items in the financial statements for the year ended December 31, 2011 have been reclassified in order to conform with the presentation of the financial statements for the year ended December 31, 2012, which are detailed below:

Easements in the amount of US$1,047,368, as of December 31, 2011 were previously presented as part of property, plant, and equipment. The Company has made the reclassification of this line item to include it as part of "Intangibles, net".

The debt issuance costs were reclassified and presented as part of the "Long-term debt" as prescribe by accounting principles.

2. Summary of Most Relevant Accounting Policies (Continued)

Reclassifications (continued)
The amount of US$7,035,152 in the balance sheet corresponding to the regulatory asset resulting from its recovery through the Rate Stabilization Fund is reclassified, to be presented as part of the accounts receivable "Trade and other, net" according to Resolution No.5025-Elec from ASEP, dated December 2011, and for which payment was defined on January 5, 2012. This recovery of the regulatory asset also creates a reclassification in the income statement, increasing the item of energy sales, with a consequent increase in the cost of power purchase and transmission charges, net. Both reclassifications of revenues and cost of power purchase and transmission charges modify the presentation in the income statement, without having an impact on reported net income for the period ended December 31, 2011. The reclassification of the income tax in the amount of US$2,110,546 resulting from the previously mentioned reclassification is also reflected in the balance sheet and in the income statement.

3. Accounts Receivable - Trade and Other, Net

Accounts receivable - trade and other are presented below:

	2012	2011
Customers	US$ 55,921,774	US$ 46,757,251
Government and municipal entities (Note 11)	10,327,149	8,539,087
	66,248,923	55,296,338
Supplied energy, unbilled	10,227,530	8,914,850
Government subsidy (Note 11)	24,904,524	17,789,960
Other	2,283,281	2,315,534
	103,664,258	84,316,682
Allowance for doubtful accounts	(9,515,951)	(8,822,653)
	US$ 94,148,307	US$ 75,494,029

3. Accounts Receivable - Trade and Other, Net (Continued)

The total accounts receivable - customers and other includes balances due from subsidies granted by the Panamanian Government to customers through the Rate Stabilization Fund (Fondo de Estabilizacion Tarifaria ("FET"), in Spanish) and the Energy Compensation Fund (Fondo de Compensacion Energetica ("FACE"), in Spanish) in the amount of US$5,075,438 and US$19,829,086, respectively, which are presented as Government subsidy in this note. For 2011, the balance of US$17,789,960 corresponds to FET subsidies awarded by the Panamanian Government to customers. The FET is given to customers with consumption of less than 500 kWh per month and is also granted when the Panamanian Government agrees to subsidize the tariff adjustments.

The FACE was created by Cabinet Resolution No.174 of November 8, 2011, which approved the creation of a Trust Agreement for the establishment of this fund which aims to compensate the energy distribution companies for the amounts owed to them by the updating of electricity rates due to the commitment acquired by the Panamanian Government to mitigate the transfer of the inflation imported to the country due to increases in fuel prices. The Trust Agreement provides that in the periods in which the rates submitted by the electricity distribution companies and verified by the ASEP result above current rates applied to customers of the previous semester, the FACE will be used to offset these increases, otherwise, the difference will be refunded to the FACE to compensate the disbursements during the previous rate periods. On June 26, 2012 the Cabinet Council issued Resolution No.64 approving the Panamanian Government to compensate the energy distribution companies for the amounts they failed to receive through the semiannual and monthly tariff adjustments by means of payments from the FACE.

For the first semester of 2012 the company submitted to the ASEP the balance of the required compensation for amounts failed to receive through the update of electricity rates for the first half of 2012 according to the actual invoice for the sum of US$46,950,634. On July 25, 2012 through Resolution No.5463 ASEP acknowledged the whole of that amount as income lost and notified the Electricity Transmission Company, S. A. (ETESA) and Elektra Noreste, S. A. the amount to be transferred by way of this rate compensation.

On August 22, 2012 the ASEP issued Resolution No.5532, establishing that the current rate of the first half of 2012 would be applied for the second half of 2012, with a 1.25% increase for customers with Simple Low Voltage Rate (BTS) and 10% for the remainder of the rates and the amounts failed to receive through the semiannual rate update will be compensated to the distribution companies with a Government contribution, as set out in the Cabinet Resolution No.64 of 2012.

Through Resolution No.5917 of January 28, 2013, the ASEP notified the Company that the amount of US$19,829,086 was to be transferred to offset the income loss through the rate update according to the actual billing in the amount of US$27,151,488 for the second half of 2012, net of US$7,322,402 in credits balances for Variation in Fuel surcharge for the period from July to December 2012.

3. Accounts Receivable - Trade and Other, Net (Continued)

As of December 31, 2012, the Company charged against the allowance for doubtful accounts the amount of US$500,000 (2011: US$1,011,808) and recovered balances on accounts previously written off in the amount of US$330,203 (2011: US$325,661).

4. Property, Plant, and Equipment, Net

The property, plant and equipment are as follows:

	2012	2011
Poles, towers and accessories	US$ 91,689,107	US$ 94,771,345
Electric transformers	51,563,186	50,714,190
Underground conductors and ducts	71,116,800	67,628,880
Consumer services	31,754,881	31,408,959
Overhead conductors and accessories	34,165,114	31,143,477
Substation equipment	55,110,776	54,535,696
Consumer meters	33,308,614	29,476,864
Buildings and improvements	14,936,273	14,383,755
Public lighting equipment	14,018,291	13,661,578
Transportation and communication equipment	5,443,414	7,150,288
Office furniture and equipment	9,526,663	10,599,814
Other	6,565,646	5,260,494
	419,198,765	410,735,340
Less: Accumulated depreciation and amortization	(166,468,847)	(164,326,684)
	252,729,918	246,408,656
Construction in progress	46,107,863	26,851,345
Land	6,867,785	4,702,949
	US$ 305,705,566	US$ 277,962,950

As of December 31, 2012, the Company incurred in losses in the amount of US$776,053 (2011: US$85,002), as a result of fixed assets write-off. These losses are reported in the statement of operations under the item loss from asset disposal. As of December 31, 2012, the Company capitalized interest in the amount of US$1,114,056 (2011: US$214, 237). (See Note 14)

As of December 31, 2012, the depreciation expense on property, plant and equipment was in the amount of US$15,750,280 (2011: US$15,480,632).

5. Intangibles, Net

The intangibles assets held by the Company includes intangibles of indefinite and finite life. Finite life intangibles are amortized over their estimated useful life. The details of these are presented below:

	2012	2011
Finite Life Intangibles:		
Costs of development and license	US$ 11,493,410	US$ 10,531,857
Accumulated amortization	(5,038,460)	(4,185,328)
	6,454,950	6,346,529
Indefinite Life Intangibles:		
Easement	1,047,368	1,047,368
Intangibles, net	US$ 7,502,318	US$ 7,393,897

As of December 31, 2012, the amortization expense for intangible assets was US$1,135,682 (2011: US$701,540).

The amortization of intangible assets for the period from December 31, 2013 through 2017 is as follows:

	2013	2014	2015	2016	2017
Estimated amortization	US$ 834,065	US$ 834,065	US$ 833,237	US$ 746,976	US$ 604,105

6. Accounts Payable

Generation and Transmission
Accounts payable to generation and transmission companies are as follows:

	2012	2011
Non-related parties		
Inversiones y Desarrollo Balboa, S. A.	US$ 353,265	US$ 5,714,049
Panam Generating, Ltd.	14,185,917	14,264,131
Pedregal Power Company, S. de R.L.	723,528	721,867
Termica del Caribe, S. A.	5,795,229	4,634,637
Sistema de Generacion, S. A.	3,591,372	3,248,063
Generadora del Atlantico, S. A.	2,822,808	47,441
Alternegy, S. A.	1,198,779	8,806
Bontex, S. A.	501,011	219
Other	2,588,276	1,814,097
	31,760,185	30,453,310
Related parties		
AES Panama, S. A.	7,787,849	3,593,339
Autoridad del Canal de Panama	3,473,123	9,069,678
Empresa de Distribucion Electrica Metro Oeste, S. A.	62,979	13,296
Empresa de Distribucion Electrica Chiriqui, S. A.	7	-
Empresa de Generacion Electrica Bahia Las Minas Corp.	12,060,284	12,460,884
ENEL Fortuna, S. A.	6,762,731	7,104,378
Energia y Servicios de Panama, S. A.	736,476	776,953
Empresa de Transmision Electrica, S. A.	1,700,930	1,587,242
	32,584,379	34,605,770
	US$ 64,344,564	US$ 65,059,080

Suppliers - Accounts payable to suppliers are as follows:

	2012	2011
Maintenance, repair and construction contracts	US$ 6,530,927	US$ 6,575,770
Materials and inventory	3,561,587	5,051,439
Technical and professional services	1,789,920	1,063,703
Acquisition of equipment	745,461	2,541,670
Other	3,847,863	2,793,734
	US$ 16,475,758	US$ 18,026,316

7. Income Tax

The provision for income tax is determined based on book income before income taxes, adjusted for non-taxable income and non-deductible expenses, if any. The standard rate of income tax is 30%.

The difference between the provision for income taxes for the periods ended December 31, 2012 and 2011 and the tax calculated using the enacted statutory tax rate of 30% for income before income taxes reported in the financial statements is attributable to the following:

	2012	2011
Income tax		
Computed at statutory rate	US$ 15,153,902	US$ 13,044,649
Decrease in income tax due to non-taxable income	(34,478)	(34,728)
Increase in income tax due to non-deductible expenses	115,754	41,688
Total income tax	US$ 15,235,178	US$ 13,051,609

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

	2012	2011
Current deferred income tax assets:		
Provision for doubtful accounts	US$ 649,149	US$ 580,032
Regulatory liability (Note 2)	559,574	-
Other	310,697	282,922
Total deferred income tax assets	1,519,420	862,954
Current deferred income tax liability - regulatory asset (Note 2)	-	(4,911,659)
Current deferred income tax assets (liability), net	US$ 1,519,420	US$ (4,048,705)
Non-current deferred income tax asset:		
Provision for contingencies	US$ 23,582	US$ 23,582
Non-current deferred income tax liabilities:		
Unemployment trust fund	(189,649)	(169,707)
Depreciation expense	(2,382,964)	(2,519,701)
Non-current deferred income tax liabilities, net	US$ (2,549,031)	US$ (2,665,826)

7. Income Taxes (Continued)

In accordance with tax regulations, the income tax returns of companies incorporated in the Republic of Panama are subject to review by the tax authorities for the past three years. The years beginning after 2010 are subject to examination by the tax authority, although no tax examination is scheduled or in process. The years prior to 2010 are considered closed periods.

Pursuant to ASC 740, "Income Taxes", the Company is required to recognize the effects on the financial statements effects of tax positions if they meet a "more-likely-than-not" threshold. In evaluating the 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 made against its final settlement. These are referred to as liabilities for unrecognized tax benefits under ACS 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 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 finally made in the financial statements.

Investment Tax Credit
During 2001, the Company received an investment tax credit in the amount of US$13,673,745, which was granted by the Panamanian Government under a law that promoted incentive infrastructure investments to expand distribution network of electricity. The tax credit can be applied as a reduction of up to 25% of the income tax incurred in the fiscal period, until 100% of the tax credit is spent in future years. The Company made use of this tax credit over the years until December 31, 2008 when it used all of this credit.

Due to the tax benefit received, the Company is not allowed to deduct for tax purposes the depreciation expense related to investment in infrastructure by the sum of US$13,673,745, which will have a total tax effect of US$4,102,123.

8. Customers' Deposits

The activity in the customer deposit accounts are as follows:

	2012	2011
Beginning balance	US$ 6,288,703	US$ 6,692,323
Deposits received from customers	2,240,208	2,161,381
Interest accrued	128,752	128,068
Deposits returned to customers	(2,023,348)	(2,539,488)
Interest paid	(121,851)	(153,581)
Ending balance	6,512,464	6,288,703
Current portion	(2,029,216)	(1,564,343)
Long-term portion	US$ 4,483,248	US$ 4,724,360

9. Debt

Short-Term Debt
The obligation for revolving credit lines is detailed as follows:

	2012	2011
Short-Term Credit Lines		
HSBC Bank Panama, S. A.	US$ -	US$ 10,000,000

The Company has contracts for lines of credit facilities 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 value of credit lines as of December 31, 2012 of US$135,500,000 (2011: US$100,000,000), with annual interest rates of LIBOR between one (1) to three (3) or six (6) months, plus a margin between 1.25% to 2.5%. Credit lines are not subject to warranty and are available for a maximum period of one year. The minimum rate of these revolving arrangements is between 2% and 4%. The Company uses these credit facilities as needed for working capital or other needs. These credit facilities have a ranking of "pari passu" with other unsecured "senior" obligations and unsubordinated obligations of the Company. The credit facilities include, among other provisions, an indicator of debt coverage which sets a debt limit not exceeding 3.25 of its EBITDA.

9. Debt (Continued)

Long-Term Debt

The balance of the long-term debt is detailed as follows:

	2012	2011
Long - term documents payable		
Senior Notes	US$ 100,000,000	US$ 100,000,000
Corporate Bonds	20,000,000	20,000,000
Bridge Notes	80,000,000	-
Less: Debt issuance costs	(3,132,221)	(2,276,694)
Senior notes discount	(603,816)	(652,606)
Total long-term debt	US$ 196,263,963	US$ 117,070,700

Senior Notes

The Company has notes payable under a senior debt agreement ("Senior Notes") totaling US$100,000,000 which have a balance of US$99,396,184 net of US$603,816 of unamortized discount as of December 31, 2012. The notes have a fixed interest rate of 7.6%, payable semi-annually, and maturing in 2021. Principal payment is due upon maturity. The notes are not guaranteed and are not subordinated. The Company may redeem the Senior Notes, partially or as a whole, at any time prior to their maturity if they meet certain conditions including, payment of a premium. Obligations include among other provisions a debt coverage ratio indicator, which sets a debt limit not to exceed 3.25 times its EBITDA.

In the occurrence of an event of default under the terms and conditions of the Indenture, the Trustee, at the request of the bond holders keeping not less than 25% in the principal amount and if it is expected that such event of default remains, will immediately declare all bonds due and payable.

Corporate Bonds

On October 20, 2008, in a public offering, the Company offered corporate "Bonds" with a face value of US$40,000,000 unsecured and unsubordinated with a maturity date of October 20, 2018. On such date, US$20,000,000 of these corporate bonds were signed and issued with Banco General, S. A. The bonds have a ranking of pari passu with other unsecured and not guaranteed obligations of the Company. 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. The Company may redeem the bonds, in whole or in part, at the third anniversary from the date of the offer.

9. Debt (Continued)

Corporate Bonds (continued)
Failure to comply with the terms of the contract resulting from one or more grounds of early maturity and these would have not been corrected within the stipulated time, the Administrative Agent may, on behalf of the registered holders of the bond, issue a declaration of acceleration, which will be informed to the Company, and in whose date of issue, all bonds of the issuance will automatically become overdue obligations and the Company will be requested to contribute with the necessary amount to cover the principal of the bonds issued and outstanding and the interest earned on them, whether in arrears or ordinary, and all and any expenses, fees, or other amounts owed by the issuer.

Bridge Notes
On December 6, 2012, the Company entered into a Note Purchase Agreement with a group of investors which individually and not jointly agreed to purchase from the Company a total of US$80,000,000 in Corporate Notes or Senior Notes. The notes were agreed at a fixed rate of 4.73% payable semi-annually, with a maturity date of December 13, 2027 and will be issued pursuant to the Indenture Agreement signed between the Company and The Bank of New York Mellon in its capacity as trustee, which is dated December 11, 2012.

With reference to the Note Purchase Agreement and the Indenture Agreement, the Company signed on December 13, 2012 a Bridge Loan Agreement where the Company agrees to issue unencumbered promissory notes ("Bridge Notes,") payable to each of the purchasers for a total of US$80,000,000. In turn, each of the purchasers agrees to transfer funds corresponding to each of the Bridge Notes to the Company. The Agreement provides that the Bridge Notes will bear annual interest of 4.73% cumulative from the date the funds are transferred, with a maturity date of February 1, 2013 or on the date of termination of the Loan Agreement, whichever occurs first. The Loan Agreement may be terminated by mutual agreement of the parties or in case of not issuing the Corporate Notes or Senior Notes. The Loan Agreement requires the Company to maintain and ensure it has indebtedness capacity in funds available in its credit lines facilities along with its with cash equivalents for an amount in excess of the amount to be paid for the termination of this agreement.

The Notes Purchasing Agreement was signed on January 17, 2013, and the Corporate Notes or Corporate Senior Notes were delivered to the buyers. Therefore on this same date the Company and the buyers confirm that the conditions of the Note Purchase Agreement have been met and the Company is released of payment obligations under the Bridge Notes and the Financing Agreement. The payment price signed under the issuance of Corporate Notes or Senior Notes should be satisfied with the cancellation of the Bridge Notes and the payment obligations set in the Financing Agreement without any additional payment by the buyers to the Company. Since as of December 31, 2012 the Company still has the obligation of US$80,000,000 in Bridge Notes and considering that the original intention of the Agreements signed by the Directors of the Company is to obtain long-term financing, this obligation is presented in the balance sheet of the Company as part of its long-term debt.

9. Debt (Continued)

Bridge Notes (continued)
During the time the Indenture Agreement remains outstanding, the Company shall comply with the terms of the agreements, some of which are indicated below:

- Prohibition of creating assuming, incurring or suffering any Lien on any of the properties or assets of the Company or its subsidiaries.

- Not allowing any Subsidiary, in one or a series of transactions, to consolidate or merge with any company or to assign or transfers, all or most of its property, assets or revenues to any company (other than a Subsidiary of the Company) or allow any company (other than a Subsidiary of the Company) to merge with or into it.

- Not allowing the ratio of Consolidated Total Indebtedness to Consolidated EBITDA for the then most recently ended four fiscal quarters to exceed 3.50x. The Consolidated Total Indebtedness to Consolidated EBITDA may exceed 3.50x during a period of eligible acquisition or capital investment, no more than twice during the term of the Notes, provided that during such the Consolidated Total Indebtedness to Consolidated EBITDA Ratio does not exceed 4.0x

Upon the occurrence of an Event of Default, the Trustee shall, at the request of the Holders declare all Notes due and payable immediately. Upon the Notes becoming immediately due and payable, the Company shall pay the Trustee an amount equal to the sum of the principal amount of the Notes outstanding, all interest accrued thereon, any additional amounts, and the Make-Whole Amount (the "Event of Default Redemption Amount "), as calculated by the Company and informed to the Trustee in writing. For the purposes of the Event of Default Redemption Amount, the "Make-Whole Amount" shall equal the difference between (i) the sum of (a) the present value of the expected future principal and interest cash flows from the Notes (minus any accrued interest), discounted at a per annum rate equal to the then-current Treasury Note Yield, closest to the remaining weighted average life on the Notes calculated at the time of payment of the Event of Default Redemption Amount and (b) 0.50% per annum and (ii) the principal amount of the outstanding Notes.

As of December 31, 2012, the Company amortized debt issuance costs in the amount of US$180,653 (2011: US$167,305). The issuance costs are being amortized using the method of effective interest applied at the period of the debt.

During years ended on December 31, 2012 there were dividends for the amount of US$42,432,437 (2011: US$13,500,000).

10. Tax on Dividends and Treasury Stocks

Tax on Dividends

Shareholders pay a tax on dividends of 10 percent (10%), which is withheld from dividends received. If dividends are not distributed or if the total distribution is less than forty percent (40%) of the net taxable income, an advance of the dividend tax of four percent on net income, is to be paid until the time to declare dividends on profits. This rate of four percent (4%) is called "Prepaid Dividend Tax" and is considered an advance on dividend tax. The prepaid dividend tax paid is recorded and presented as a reduction of shareholders' equity or as an increase when it is credited because of the filing of the tax on dividends. During the periods ended on December 31, 2012, the Company made payments on the prepaid dividend tax in the amount of US$506,016 (2011: US$1,159,670), and was credited the sum of US$1,124,737 (2011: US$540,000) in advance to dividend tax.

Treasury Stocks

In 1998, as a consequence of the privatization process former IRHE's employees had the option to purchase at a discount price, 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.

11. Related Parties Balances and Transactions

In the normal course of business, the Company purchases electricity from generation and other distribution companies, it sells energy to government 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 rates, see Notes 2 and 15. A summary of the balances and transactions resulting from the purchase and sale of energy with related parties is as follows:

	2012	2011
Balances		
Accounts receivable (customers) - Government (Note 3)	US$ 10,327,149	US$ 8,539,087
Accounts receivable Government Subsidy (Note 3)	24,904,524	17,789,960
Accounts payable (generation and transmission) (Note 6)	32,584,379	34,605,770
Transactions		
Sale of energy	114,553,765	82,163,646
Purchases of energy	195,237,639	197,492,883
Transmission costs	12,499,959	12,492,844

12. Other Revenues

Other revenues are composed of the following:

	2012	2011
Connection/reconnection fees	US$ 691,132	US$ 679,916
Pole rentals	3,669,293	3,597,469
Toll fees	5,575,781	4,794,200
Other income	399,423	561,542
	US$ 10,335,629	US$ 9,633,127

13. Purchase of Energy and Transmission Charges, Net

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

	2012	2011
Purchase of energy	US$ 406,421,201	US$ 394,323,549
Transmission charges	12,791,865	12,777,284
Regulatory asset (liability) variation	18,237,446	(18,275,848)
Total purchase of energy and transmission charges, net	US$ 437,450,512	US$ 388,824,985

Regulated Activity

Changes resulting from the increase and/or decrease on the recovery of these energy costs are reflected under the line of energy purchases and transmission charges in the Statements of Income. The cumulative amount receivable/payable is presented in the assets (liabilities) account on the balance sheets until these amounts are billed or reimbursed to customers. The regulatory asset (liability) includes six months of current information of fuel price, plus six months of estimated fuel price information.

For the last several years, the regulatory asset (liability) has not been fully transferred to customers in the form of a rate increase; the amount not invoiced to customers has been subsidized by the Panamanian Government. As of December 31, 2012, the Government Subsidy amounted to US$24,904,524 (2011: US$17,789,960) (see Note 3).

As of December 31, 2012, the Company has regulatory liability recorded in books for an amount of US$1,865,247 (2011: regulatory asset in the amount of US$16,372,199) that are presented as “regulatory assets or liabilities” in the balance sheets as a result of the cumulative changes resulting from the cost of energy considered for the electric rate versus the actual cost of energy purchased. The regulatory liability includes a balance payable of US$1,118,978, accumulated during the first half of 2012 to be returned to customers in the tariff adjustment for the first half of 2013, and a balance payable of US$746,269 accumulated during the second half of 2012, to be returned to customers in the tariff adjustment of the second semester of 2013.

14. Cost of Interests

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

	2012	2011
Interest costs capitalized (Note 4)	US$ 1,114,056	US$ 214,237
Interest costs charged to expenses	8,282,478	8,586,409
Total interest costs incurred	US$ 9,396,534	US$ 8,800,646

15. Commitments and Contingencies

Commitments

As of December 31, 2012, the Company had signed energy and long-term firm capacity purchase contracts with the following generation companies:

Company	MW	Begins	Ends
Sistema de Generacion, S. A.	on demand	July 1, 2010	June 30, 2020
AES Panama - Esti	48.72	November 20, 2003	November 20, 2013
Termica del Caribe, S. A.	2.85	March 1, 2009	June 30, 2014
Generadora del Atlantico, S. A.	16.22	June 1, 2009	April 30, 2015
Energía y Servicios de Panama, S. A.	0.96	July 1, 2009	June 30, 2014
Bahia Las Minas, S. A.	108	January 1, 2010	December 31, 2018
Panam Generating, Ltd.	20	January 1, 2010	December 31, 2019
Paso Ancho Hidro-Power, Corp.	4	October 5, 2010	October 4, 2018
Semper Group, Inc.	22.5	January 1, 2011	December 31, 2018
Panam Generating Ltd.	60	January 1, 2011	December 31, 2020
AES Panama, S. A.	23	January 1, 2013	December 31, 2021
Energía y Servicios de Panama, S. A.	1.49; 1.15; 9.31	January 1, 2012	December 31, 2014
Empresa de Generacion Electrica Fortuna, S. A.	1.2; 0.92; 7.5	January 1, 2012	December 31, 2014
Generadora del Atlantico, S. A.	0.5; 0.38; 3.12	January 1, 2012	December 31, 2014
Autoridad del Canal de Panama	3.6; 2.77; 22.5	January 1, 2012	December 31, 2014
Empresa de Generacion Electrica Fortuna, S. A.	120	January 1, 2013	December 31, 2018
Empresa de Generacion Electrica Fortuna, S. A.	8.05	January 1, 2013	December 31, 2022
AES Panama. S. A.	9.43	January 1, 2013	December 31, 2022
Hydro Caisan, S. A.	5.09	January 1, 2013	December 31, 2022
Electron Investment, S. A.	10.35	January 1, 2013	December 31, 2022

15. Commitments and Contingencies (Continued)

Commitments (continued)

Company	MW	Begins	Ends
Alternegy, S. A.	18.4	January 1, 2013	December 31, 2022
Bontex, S. A.	4.6	January 1, 2013	December 31, 2022
Bahía Las Minas, S. A.	108	January 1, 2019	December 31, 2023
Generadora Pedregalito, S. A.	0.9	January 1, 2012	December 31, 2014
Caldera Energy Corp.	0.65	January 1, 2012	December 31, 2014
Generadora Rio Chico, S. A.	0.46	January 1, 2012	December 31, 2014
Generadora Alto Valle, S. A.	0.4	January 1, 2012	December 31, 2014
Hidro Piedra, S. A.	0.16	January 1, 2012	December 31, 2014
Electrogeneradora del Istmo, S. A.	0.15	January 1, 2012	December 31, 2014
Empresa de Gen Electrica Fortuna, S. A.	7.87	January 2, 2015	January 1, 2029
Consorcio Tabasara, S. A.	3.17	January 2, 2015	January 1, 2029
Hidroecologica del Teribe, S. A.	2.67	January 2, 2015	January 1, 2029
MIFTA Power, Inc.	2.67	January 2, 2015	January 1, 2029
Energia y Servicios de Panama, S. A.	1.46	January 2, 2015	January 1, 2029
Generadora Pedregalito, S. A.	1.05	January 2, 2015	January 1, 2029
Caldera Energy Corp.	0.8	January 2, 2015	January 1, 2029
Generadora Rio Chico, S. A.	0.64	January 2, 2015	January 1, 2029
Generadora Alto Valle, S. A.	0.61	January 2, 2015	January 1, 2029
Desarrollo Hidroelectrico Corp.	0.51	January 2, 2015	January 1, 2029
Hidroelectrica San Lorenzo, S. A.	0.36	January 2, 2015	January 1, 2029
Electrogeneradora del Istmo, S. A.	0.33	January 2, 2015	January 1, 2029
Hidro Iberica, S. A.	0.4	January 1, 2012	December 31, 2014
Empresa de Generacion Electrica Fortuna, S. A.	18.37	January 1, 2012	December 31, 2014
Hidro Boqueron, S. A.	0.27	January 1, 2012	December 31, 2014
Pedregal Power Co.	4.64	January 1, 2012	December 31, 2014
Empresa de Generacion Electrica, S. A.	0.3	January 1, 2012	December 31, 2014
Autoridad del Canal de Panama	4.45	January 1, 2012	December 31, 2014
Hidroecologica del Teribe, S. A. (Pot Equivalent)	0.54	July 1, 2014	June 30, 2024
Paso Ancho Hydro Power, S. A. (Pot Equivalent)	0.24	July 1, 2012	June 30, 2024
Termica del Caribe, S. A.	6	April 1, 2012	April 1, 2015
Empresa de Generacion Electrica Fortuna, S. A.	12	January 1, 2013	December 31, 2014
Generadora del Atlantico, S. A.	12	January 1, 2013	December 31, 2014
Hidro Piedra, S. A.	0.62	January 1, 2013	December 31, 2015
Hidro Panama, S. A.	0.11	January 1, 2013	December 31, 2015
Hidroecologica del Teribe, S. A.	1.71	January 1, 2013	December 31, 2015
Ideal Panama, S. A.	4.45	January 1, 2013	December 31, 2015
Istmus Hydropower Corp.	0.54	January 1, 2013	December 31, 2015
Las Perlas Norte, S. A.	0.53	January 1, 2013	December 31, 2015
Las Perlas Sur, S. A.	0.53	January 1, 2013	December 31, 2015
Café de Eleta, S. A.	0.01	January 1, 2013	December 31, 2015
Enel Fortuna, S. A.	7.78	January 1, 2013	December 31, 2015

15. Commitments and Contingencies (Continued)

Commitments (continued)

Company	MW	Begins	Ends
Generadora del Atlantico, S. A.	16.21	January 1, 2013	December 31, 2015
Autoridad del Canal de Panama	3.99	January 1, 2013	December 31, 2015
Hydro Caisan, S. A. (Pot equivalent)	2.88	July 1, 2012	December 31, 2015
Caldera Energy Corp (Pot equivalent)	1.36	July 1, 2012	December 31, 2015
Electrogeneradora del Istmo, S. A. (Pot equivalent)	0.38	July 1, 2012	December 31, 2015
Generadora Pedregalito, S. A. (Pot equivalent)	1.16	July 1, 2012	December 31, 2015
Generadora Rio Chico, S. A. (Pot equivalent)	0.76	July 1, 2012	December 31, 2015

In compliance with the Electricity Act of 1997, the Company negotiated long-term purchase contracts with generation companies. These contracts cover most of the contribution of its regulated customers from the total of the peak electricity demand and works to limit any associated energy cost. Historically, the Company contracts in an annual basis 81% to 98%, approximately, of its total energy requirement on the contract market. As of December 31, 2012 and 2011, the Company purchased approximately 97% of its total energy requirements through energy purchase contracts in the contract market. These contracts include both a fixed charge based on the energy capacity requirements and a variable charge based on energy consumed. These contracts for the purchase of energy and capacity qualify under the accounting exceptions for derivative instruments given that they fall within the conditions for normal purchases and normal sales according to what is prescribed by ASC 815, "Derivatives and Hedging".

The Empresa de Transmision Electrica, S. A. (ETESA) is responsible for preparing the tenders for the purchase of energy on behalf of the distribution companies. Tenders are received, evaluated and awarded by ETESA and then assigned to each distribution company based on their requirements. Distribution companies are required to sign contracts based on the successful tenders.

The Company has various unconditional long-term contractual obligations related to the purchase of energy capacity. The aggregate amount of payments required for such liabilities is presented as follows:

Year	Payment Obligation
2013	US$ 96,316,027
2014	93,491,178
2015	83,527,162
2016	83,359,337
Thereafter	454,894,067
	US$ 811,587,771

15. Commitments and Contingencies (Continued)

Commitments (continued)
As of December 31, 2012 the Company made expenditures for the amount of US$88,319,247 (2011: US$92,042,791) on such unconditional long-term contracts, recorded under purchase of energy and transmission charges, net, on the Statements of Operations.

The Company and the workers' union negotiate a Labor Collective Agreement every four years. The current Agreement expired in 2012. Negotiations with the union ended on January 4, 2013 and a new Collective Agreement was signed. These agreements do not hold or consider additional material commitments besides those established in the labor law. The new Collective Labor Agreement is effective as of January 2013 and is valid for a four-year term.

Operation Leases
The Company signed a non-cancellable lease agreement for a seven-year period, whose term began in May 2007, for the use of the offices and operating facilities. As of December 31, 2012 the minimum rental payments required under this non-cancellable operating lease, starting or held for a period in excess of one year are:

Year	Payment Obligation
2013	US$ 527,748
2014	177,641
	US$ 705,389

As of December 31, 2012 the total operating lease expense was US$1,884,096 (2011: US$1,813,709)

Guarantees
The Company has provided limited guarantees to generation companies in order to provide for credit assurance and the fulfillment of obligations under the energy purchase agreements. These guarantees are not recognized on the balance sheets, because the Company believes that it will be able to comply with the provisions of these contracts, and therefore it is unlikely that the guarantees are to 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 energy purchase agreement is in place. The aggregate guarantee amount for the fulfillment guarantees amount to US$35,710,729. The Company has also issued a guarantee in favor of the ASEP in the amount of US$8,000,000 pursuant with clause 53 of the Concession Contract.

15. Commitments and Contingencies (Continued)

Guarantees (continued)
The Company holds letters of credit for US$5,430,471 in favor of ETESA guaranteeing the payment of transmission costs and energy purchases on the spot energy exchange market.

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

The concession agreement was signed on October 22, 1998 for a 15-year term. On October 22, 2012, the regulator issued the notice of convocation for the competitive process of open participation for the sale of the majority of the shares of the company. The current owner, Panama Distribution Group, S. A. ("PDG") may participate in this process, and if its bid is equal or higher than the highest bid made by other competitors, it will then retain ownership of the majority of the shares. If on the contrary, another competitor offers a higher price, then the property will be awarded to such competitor and the offered price will be given to the current owner of the shares ("PDG"). In any case, a new 15-year concession will be granted, without any payment to the Panamanian Government. On October 15, 2012, the ASEP issued Resolution No.5655, establishing that the current owners of the majority package are prequalified due to their condition of current operators of the concession. According to the timetable established by the ASEP, the reception of prequalification document will be held on April 2013. The financial bids will be receive and the award shall be made in June 2013, and on October 22 will be the beginning of the new concession contract valid for a 15-year period. The new concession contract will include among others: new limits for the concession area, new bailout mechanisms or administrative resolution, stringent quality indicators, and it will incorporate new standards for customer service.

The Concession Contract establishes provisions related to the Concessionaire's obligation in the provision of service, the prohibition of the separation of the majority shares package, the obligation to deliver technical and financial information periodically to the ASEP, compliance with the technical quality standards (quality standards, measurement standards, and operation regulations of the CND), payment of a control fee, supervision and monitoring by the ASEP, which cannot be transferred to users through the tariff.

15. Commitments and Contingencies (Continued)

Contingencies

As result of issues arising in the ordinary course of business, the Company is or may be involved in legal, tax and regulatory proceedings before various courts, regulatory commissions, and governmental agencies. The Company recognizes a provision when it is likely that a liability has been incurred and the amount of the associated loss can be reasonably estimated. The Company is unable to predict the outcome of various legal proceedings, ultimate outcome of these proceedings, but after consideration of these provisions it is not expected that the final results of these process will have a material impact on the Company's financial position or on the result of operations.

As of December 31, 2012 the Company has recorded the sum of US$78,610 (2011: US$78,610) to cover potential losses that may occur as a result of third party claims. These reserves are reported in the balance sheets in "Provision for contingencies". Following is the most representative case:

Litigations

The ASEP through Resolution AN No.3473-Elec of May 10, 2010, modified Resolution JD-5863, dated February 17, 2006, which contains Title IV of the Distribution and Commercialization Regimen, which contains a provision on its article number 22, entitling the ASEP to review at the end of each rate period the maximum allowable income "IMP" approved versus actual revenue received to determine whether the variations are within a reasonable range. The variation in sales, in the amount and/or type of customer and/or the cost of supplies or labor will not be taken into consideration, in a way different to the one reflected by the IPC of the Comptroller General of the Republic. Although the procedure for calculating and adjusting any unreasonable excess has yet to be defined and established by the ASEP, the position of the Company's management is that as of December 31, 2012 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) the final outcome still in progress related to the appeal of this article filed in the Supreme Court by another power distribution company; ii) in case the regulatory entity approves a resolution to adjust any unreasonable excess, the Company has the right to file an appeal at the Supreme Court which is an independent body and the 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 would be highly subjective. An unfavorable resolution to that effect could have a significant negative impact on the financial statements of the Company. In spite of the above, the Resolution AN-3574-Elec dated June 25, 2010, which approved the "Maximum Allowed Income" for the July 2010 - June 2014 rate period has no adjustment related to the previous rate period (July 2006 to June 2010).

16. Fair Value of Financial Instruments

The estimated fair values of financial instruments as of December 31, 2012 and 2011 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 financial assets and liabilities such as cash, account receivables-customers, severance funds, accounts payable, short-term and long-term debt; and customer deposits. The Company uses the following methods and assumptions for estimating the disclosure of fair value of financial instruments:

Accounts Receivable, Accounts Payable, Short-Term Debt and Customer Deposits
The cumulative amount is close to the fair value because of the short maturity of those instruments.

Long-Term Debt
The fair value of long-term debt with variable interest rates for the issuance of corporate bonds for an amount of US$20,000,000, Bridge Notes for US$80,000,000 and for the long-term debt of fixed rate for the issuance of "Senior" Bonds for the amount of US$100,000,000 has been determined using a methodology of discounted cash flow 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 the financial instruments are as follows:

	2012		2011	
	Cumulative Amount	Fair value	Cumulative Amount	Fair Value
Long-term debt	US$200,000,000	US$222,867,014	US$120,000,000	US$137,827,322

17. Subsequent Events

The Company evaluated all events and transactions that took place between the date of the balance sheets and the date the financial statements were issued and it determined that additional disclosures were no required, with the exception of those included in Notes 3 and 9.

The Company has begun the process of conversion and evaluation of the adjustments and financial impacts for the adoption of International Financial Reporting Standards, for which the year 2013 has been established as a transition year and the first financial statement in accordance with these rules will be issued on December 31, 2014.