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

Report and Financial Statements
December 31, 2006 and 2005

Elektra Noreste, S. A.

Management Report

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

The accompanying balance sheet of Elektra Noreste, S. A. as of December 31, 2006, and the related statement of income, stockholder's equity and cash flows for each of the years ended December 31, 2006 and 2005, have been prepared from the non-audited accounting information, consequently the reports could be subject to adjustments and/or reclassifications. All the information included in these interim financial statements is the representation of the Management of Elektra Noreste, S. A.

In our opinion, the mentioned financial statements, fairly present, in all their material aspects, the financial situation of Elektra Noreste, S. A. as of December 31, 2006, the results of its operations, the changes in the stockholder's equity and cash flows for the twelve-months periods ended December 31, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

Javier Pariente	Eric Morales
Executive Vicepresident &	Chief Financial Officer
General Manager	

February 1, 2007
Panama, Republic of Panama

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

Balance Sheets
December 31 2006 and 2005
(Expressed in United States dollars)

	Notes	2006	2005
Assets			
Property, plant, and equipment:			
Property, plant, and equipment, net of accumulated depreciation		$ 219,845,633	$ 213,997,316
Construction in progress		14,019,842	13,840,455
Total property, plant, and equipment		233,865,475	227,837,771
Current assets:			
Cash		18,266,568	1,576,063
Accounts receivable			
Trade, net	3	44,863,611	39,667,739
Fuel component adjustment	7		16,724,807
Related company		13,123	
Others, net		1,548,247	1,736,060
Accounts receivable, net		46,424,981	58,128,606
Inventory		6,019,634	7,050,919
Prepaid income tax	4		1,468,470
Deferred income tax	4	1,737,255	901,867
Other current assets		384,134	529,643
Total current assets		72,832,572	69,655,568
Other assets:			
Debt issuance cost		2,578,909	1,597,611
Severance fund		1,077,476	911,843
Security deposits on facilities		99,175	58,138
Trust fund for long-term loan debt	6		2,500,000
Deferred income tax	4	1,909,922	5,409,676
Total other assets		5,665,482	10,477,268
Total assets		$ 312,363,529	$ 307,970,607

	Notes	2006	2005
Liabilities and Stockholders' Equity			
Stockholders' equity:			
Common stock authorized, issued and outstanding: 50,000,000 shares without par value; 160,031 held in treasury		$ 106,098,875	$ 106,098,875
Accumulated other comprehensive loss	5		(457,493)
Retained earnings		16,954,728	18,748,041
Total stockholders' equity		123,053,603	124,389,423
Current liabilities:			
Accounts payable:			
Generation and transmission		37,911,651	41,228,848
Suppliers		12,304,961	10,226,889
Construction contracts		6,894,622	6,674,630
Advance on tariffs subsidy		1,189,965	
Related company		490,726	512,700
Income tax payable	4	6,638,998	
Deferred income tax	4		5,017,440
Customer deposits		2,924,546	2,665,177
Fuel component adjustment	7	3,500,649	
Witholding taxes		521,065	257,887
Total accounts payable		72,377,183	66,583,571
Current portion of debt	6		10,000,000
Interest payable on debt		3,588,889	1,396,934
Derivative Instrument	5		653,561
Accrued expenses		1,469,940	661,917
Total current liabilities		77,436,012	79,295,983
Long-term debt	6	99,151,798	90,000,000
Customer deposits and other liabilities:			
Deferred income tax	4	3,203,388	3,340,126
Customer deposits		7,482,001	8,923,025
Other accrued liabilities		2,036,727	2,022,050
Total liabilities		189,309,926	183,581,184
Commitments and contingencies	8		
Total liabilities and stockholders' equity		$ 312,363,529	$ 307,970,607

The accompanying notes are an integral part of these financial statements.

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

Statements of Income
For the twelve months ended December 31, 2006 and 2005
(Expressed in United States dollars)

	Notes	2006	2005
Revenues:			
Net energy sales		$ 332,058,802	$ 263,501,949
Other income		8,113,565	8,983,742
Total revenues		340,172,367	272,485,691
Purchase of energy and transmission charges, net	7	262,345,409	193,905,488
Gross distribution margin		77,826,958	78,580,203
Operating expenses:			
Labor and other personnel		8,755,447	8,218,840
Serverance expenses		327,955	195,942
Provision for doubtful account		2,590,869	1,483,867
Repair and maintenance		2,800,678	2,575,193
Professional services		9,275,226	8,499,148
Management fees		1,871,726	1,943,000
Depreciation and amortization		12,226,709	11,890,034
Administrative and other		7,074,152	7,517,199
Loss on sale and disposal of fixed asset		198,789	1,005,214
Total operating expenses		45,121,551	43,328,437
Operating income		32,705,407	35,251,766
Other income (expense):			
Interest income		538,657	196,350
Interest expense		(10,965,122)	(7,639,719)
Gain on sale of investment		3,635,632	
Total other expenses		(6,790,833)	(7,443,369)
Income before income taxes		25,914,574	27,808,397
Income taxes:	4		
Current		10,569,293	2,700,530
Deferred		(2,685,880)	5,871,022
Total income taxes		7,883,413	8,571,552
Net income		$ 18,031,161	$ 19,236,845

See acompanying notes to financial statements.

Elektra Noreste, S.A.
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Statements of Changes in Equity
For the twelve months ended December 31, 2006 and 2005
(Expressed in United States dollars)

	Notes	Common Stocks	Treasury Stock	Retained Earnings	Other Comprehensive Income (loss)	Total Equity
Balance as of January 1, 2005		$ 106,642,962	$ (544,087)	$ 4,011,196	$	$ 110,110,071
Net income 2005				19,236,845		19,236,845
Other comprehensive income net unrealized loss on hedging instruments, net of taxes of $196,068	5				(457,493)	(457,493)
Dividends declared				(4,500,000)		(4,500,000)
Balance, December 31, 2005		106,642,962	(544,087)	18,748,041	(457,493)	124,389,423
Net income 2006				18,031,161		18,031,161
Adjustment of other income, net	5				457,493	457,493
Dividends declared				(20,000,000)		(20,000,000)
Accredited complementary dividend tax				539,397		539,397
Complementary dividend tax paid				(363,871)		(363,871)
Balance, December 31, 2006		$ 106,642,962	$ (544,087)	$ 16,954,728	$	$ 123,053,603

See acompanying notes to financial statements.

Elektra Noreste, S.A.
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Statements of Cash Flows
For the twelve months ended December 31, 2006 and 2005
(Expressed in United States dollars)

	2006	2005
Cash flows from operating activities:		
Net income	$ 18,031,161	$ 19,236,845
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,226,709	11,890,034
Loss on sale and disposal of fixed assets	198,789	1,005,214
Provision for doubtful accounts	2,590,869	1,483,867
Discount amortization of senior notes	15,798	
Provision for severance payments net of contribution to severance fund	(52,748)	(4,739)
Deferred income tax	(2,489,814)	5,871,022
Fuel component adjustment	20,225,456	(15,559,801)
Change in operating assets and liabilities:		
Accounts receivable	(7,598,928)	(7,249,951)
Accounts receivable related company	(13,123)	
Prepaid expenses	(1,074,699)	221,051
Inventory	1,031,285	1,503,286
Advances to suppliers	238,910	115,358
Deposits on facilities	(41,037)	1,981
Trade accounts payable and other liabilities	2,224,617	17,404,723
Accounts payable related company	(21,974)	492,700
Income tax, net	7,911,400	(5,019,942)
Seniority premium payments	(70,490)	(163,473)
Net cash provided by operating activities	53,332,181	31,228,175
Cash flows from investing activities:		
Acquisition of fixed assets	(19,307,280)	(19,473,247)
Proceeds from sales of fixed assets	854,078	193,786
Withdrawal from trust fund	2,500,000	
Net cash used in investing activities	(15,953,202)	(19,279,461)

(Continued)

Elektra Noreste, S.A.
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Statements of Cash Flows
For the twelve months ended December 31, 2006 and 2005
(Expressed in United States dollars)

	2006	2005
Cash flows from financing activities:		
Repayment of long-term debt	$ (95,000,000)	$ (5,000,000)
Proceeds from long-term debt	99,136,000	
Short-term debt, net	(5,000,000)	5,000,000
Dividends paid	(20,000,000)	(16,917,165)
Complementary dividend tax paid	175,526	
Net cash used in financing activities	(20,688,474)	(16,917,165)
Cash and cash equivalents:		
Net increase (decrease) for the year	16,690,505	(4,968,451)
Beginning of year	1,576,063	6,544,514
End of year	$ 18,266,568	$ 1,576,063
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 5,982,546	$ 7,034,743
Income taxes	$ 2,453,021	$ 7,472,155

(Concluded)

See acompanying notes to financial statements.

1. Nature of Business and Basis of Presentation

Nature of Business

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

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

According to the concession contract described in Note 8, the Company has exclusivity for the distribution and marketing of electric power to customers located in the geographical areas of Panama East, Colon, Panama Bay, and the Comarca of San Blas and Darien (indigenous reserve). In regard to "large customers," defined by Law 6, dated February 3, 1997, as customers with a maximum demand over 100 KW per site that have the option to purchase energy directly from other agents of the electricity market, the Company has exclusivity for only the distribution of electricity.

Basis of Presentation

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

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

The financial statements are stated in U. S. dollar, but the accounting records are in balboas, the currency of the country in which the Company is incorporated and operates. The translations of balboas amounts into U.S. dollar amounts are included solely for the convenience of readers in the United Sates of America, and as of December 31, 2006 and 2005, and for the years then ended were on a par with and freely exchangeable for U.S. dollars. The Republic of Panama does not issue paper currency and uses the U.S. dollars as legal tender.

2. Significant Accounting Policies

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

a. ***Property, Plant, and Equipment*** **-** Upon the Company's formation, the IRHE transferred a portion of its productive assets stated at historical cost net of the associated accumulated depreciation. New asset acquisitions and construction in progress are recorded at their original cost which includes materials, contractor costs, construction overhead and financing costs. The Company reports property, plant and equipment on the balance sheet net of accumulated depreciation.

Costs associated with improvements made to property, plant and equipment are capitalized as well as major disbursements for renewals. Costs associated with repairs, minor replacements and maintenance which do not improve the asset or prolong its useful life are expensed as incurred. The Company also capitalizes interest during construction in accordance with SFAS No.34, "Capitalization of Interest Costs".

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable through operations, in accordance with SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets." If the carrying amount of the asset exceeds the expected undiscounted future cash flows generated by the asset or group of assets, an impairment loss is recognized and the asset is written down to its fair value. Fair value can be determined by the use of quoted market prices, appraisals or other valuation techniques, such as expected discounted future cash flows. Management judgment is involved in both deciding whether testing for recoverability is necessary and estimating undiscounted cash flows. As of December 31, 2006, no write-downs of long-lived assets were required.

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

(Expressed in United States dollars)

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

	Years of Estimated Useful Life
Poles, towers and accessories	30 to 40
Electric transformers	30
Underground conductors and ducts	40
Overhead conductors and accessories	25 to 35
Substation equipment	30
Consumer meters	30
Buildings and improvements	25 to 40
Public lighting equipment	25
Transportation and communications equipment	8 and 15
Office furniture and equipment	5 to 20

b. ***Cash and Cash Equivalents -*** All highly liquid investments with original maturities of three months or less are classified as cash equivalents.

c. ***Accounts Receivable -*** Accounts receivable are recorded at the invoiced amount and bear interest on past due amounts. The interest is recognized up to 90 days after making the electric suspension.

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

Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by customer type. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

d. ***Fuel Component Adjustment -*** The regulated system under which the Company operates provides that any excess or deficiency between the estimated energy costs included in the tariff and the actual costs incurred by the Company be included as a compensation adjustment to be recovered from or refunded to customers in the next tariff charges semi annual adjustment. Any excess in energy costs charged to customers is accrued in the accounts payable on the balance sheet and leads to a reduction in the next tariff charges adjustment. Conversely, any deficit in energy cost charged to customers is accrued in the account receivable on the balance sheet and leads to an increase in the next tariff charges adjustment to be recovered from customers.

e. ***Inventory -*** Inventory consists primarily of materials and supplies for the Company's consumption. Inventory is accounted for at the lower of cost or market. Cost is determined using the average cost method.

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

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

The Company also pays a regulated tariff to ETESA, a company fully-owned by the Panamanian Government for connecting to and for use of the transmission system. ETESA is responsible for expanding and upgrading the interconnecting transmission system to meet the requirements of demand growth and system stability. The current transmission tariff is due to remain in force until June 30, 2009.

h. ***Income Taxes* -** Income taxes are accounted for under the asset-liability method as prescribed by SFAS No.109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 income in the period that includes the enactment date.

i. ***Investment Tax Credit* -** The Company accounts for Investment Tax Credit (ITC) as a reduction of the current income tax under the flow-through accounting method.

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

k. ***Derivatives* -** The Company changes in the value of derivatives that are not designated as cash-flow hedges in earnings during the period of change. The Company record changes in the value of derivatives designated as cash-flow hedges that are effective in offsetting the variability in cash flows of forecasted transactions in other comprehensive income until the forecasted transactions occur. At the time the forecasted transaction occur, the Company reclassifies the amounts recorded in other comprehensive income into earnings. The Company record the ineffective portion of changes in the fair value of derivatives used as cash-flow hedges immediately in earnings.

l. ***Accumulated Other Comprehensive Income* -** Accumulated other comprehensive income (loss) is represented by the net income for the period plus the effect of the net unrealized gain (loss) on hedging instruments, net of tax.

(Expressed in United States dollars)

Comprehensive income for the years ended December 31, 2006 and 2005, is as follows:

		2006		2005
Net income for the year	$	18,031,161	$	19,236,845
Net unrealized loss on hedging instruments, net of taxes				(457,493)
Comprehensive income for the year	$	18,031,161	$	18,779,352

m. ***Contingencies -*** In the normal course of business, the Company is subject to various regulatory actions, proceedings, and lawsuits related to tax or other legal matters. The Company establishes reserves for these potential contingencies when they are deemed probable and reasonably estimable. For further discussion of contingencies, see Note 8.

n. ***Application of Recent Accounting Pronouncements -*** In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No.47, "Accounting for Conditional Asset Retirement Obligations." The Interpretation clarifies the accounting for a conditional asset retirement obligation as identified in SFAS No.143, "Accounting for Asset Retirement Obligations." Interpretation No.47 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The interpretation requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. This interpretation is effective for the 2006 fiscal year. The Company believes there will be no material effect on the results of operations or the financial statements upon adoption of this Interpretation.

In May 2005, the FASB issued SFAS No.154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No.20 and FASB Statement No.3", or SFAS No.154. SFAS No.154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No.154 also requires that a change in depreciation, amortization or depletion method for long lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No.154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 14, 2005. The implementation of SFAS No.154 is not expected to have a material impact on the Company's operations.

In June 2006, the FASB released FIN No.48, "Accounting for Uncertainly in Income Taxes" an Interpretation of FASB Statement No.109. FIN No.48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under the interpretation, the financial statements will reflect expected future tax consequences of such positions presuming the tax authorities' full knowledge of the position and relevant facts. This interpretation is effective for annual periods beginning after December 15, 2006.

Accordingly, the Company expects to adopt FIN No.48 on January 1, 2007. The Company is currently reviewing this interpretation to determine the effects on its financial statements.

In September 2006, the FASB issued FASB Statement No.157, *Fair Value Measurements* (SFAS No.157). SFAS No.157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Under SFAS No.157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. SFAS No.157 will be effective as of January 1, 2008. The company is currently assessing the impact that SFAS No.157 may have on its financial statements.

In June, 2006, the FASB ratified the consensus reached by the EITF on EITF Issue 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)*. The scope of this Issue includes taxes that are externally imposed on a revenue producing transaction between a seller and a customer. The EITF concluded that a company should disclose its accounting policy (i.e., gross or net presentation) regarding presentation of such taxes. If taxes included in gross revenues are significant, a company should disclose the amount of such taxes for each period for which an income statement is presented. This Issue is effective for the first annual or interim reporting period beginning after December 15, 2006. The company records such taxes on a net basis; and do not expect this statement to have any impact on its financial statements.

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

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

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

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

(Expressed in United States dollars)

The Company entered into a Management Consulting Agreement with CPI, Ltd., which owns 100% of the PDG shares. PDG owns 51% of the Company's authorized issued and outstanding shares of common stock. The Company records the related fees derived from the agreement as management fees within the statements of income and any outstanding unpaid balance with CPI, Ltd. is shown in the balance sheet as a related company payable.

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

The Company is subject to the provisions of FASB Statement No.71, "Accounting for the Effects of Certain Types of Regulation". Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

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

	2006	2005	Note
Fuel component adjustment - asset (liabilities)	$ (3,500,649)	$ 16,724,807	See "Fuel component adjustment" herein, note 7
Deferred income tax - asset (liabilities)	1,050,195	(5,017,440)	See note 4
	$ (2,450,454)	$ 11,707,367	

In the event that a portion of the Company's operations is no longer subject to the provisions of Statement No.71, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and, if impaired, write down the assets to their fair value. All regulatory assets and liabilities are reflected in rates.

r. ***Revenue Recognition***

Energy Sales

The Company recognizes its revenues for energy sales when service is delivered to and consumed by customers. The Company bills customers based on meter readings that are performed on a systematic basis throughout the month. The applicable rates used to bill the customers include energy cost and distribution components. The energy cost component operates as a pass-through for the energy purchased and transmission charges while the distribution components in the tariff are set by the ASEP to allow distributors to recover the cost of operating, maintenance, administration and commercial expenses, depreciation, standard energy losses and also to obtain a fair return on their investment. The energy cost component is adjusted every six months to reflect fluctuations in energy costs and the distribution components are adjusted based on the consumer price index. Due to the volatility of fuel prices, the ASEP issued a Resolution authorizing the distribution companies, only for the period from April to December 2006, to include in the customers' bill a new charge to recuperate fuel prices variation on a monthly basis. For the year 2007, the ASEP is working on a Resolution to authorize the continuity of the monthly adjustment of the fuel components, maintaining the consolidation on a semi-annual basis to verify that the pass-through of the energy purchase and transmission cost has been effective.

At the end of the year, the Company recognizes revenue for energy sales that have not yet been billed, but where electricity has been consumed by customers. This revenue is recorded as unbilled revenue within the trade receivables on the balance sheet and is calculated based on actual daily average energy consumption and applicable rates to the customers of the Company. The Company believes that it is unlikely that subsequent bills will be materially different from accruals.

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

s. ***Use of Estimates -*** The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include but are not limited to the useful lives for depreciation and amortization, allowances for doubtful accounts receivable, estimates of future cash flows associated with asset impairments, loss contingencies, collectibility of the fuel component adjustment receivable and estimated unbilled revenue. The estimates and assumptions used are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could differ materially from those estimates.

t. ***Concentration of Credit Risk -*** The Company has exclusivity for the distribution and marketing of electric power to customers located in its concession zone. The Company does not believe that significant risk of loss from a concentration of credit risk exists given the large number of customers that comprise its customer base and their geographical dispersion. The Company also believes that its potential credit risk is adequately covered by the allowance for doubtful account.

u. ***Environmental Matters -*** The Company is subject to a broad range of environmental, health and safety laws and regulations. In July 1998, the Panamanian Government enacted environmental legislation creating an environmental protection agency (Autoridad Nacional del Ambiente ("ANAM") in Spanish) and imposing new environmental standards affecting the Company's operations. Failure to comply with these applicable environmental standards, stricter laws and regulations may require additional investments or may adversely affect the Company's financial results.

(Expressed in United States dollars)

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

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

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

v. ***Reclassifications* -** Certain amounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified in order to conform to the presentation of the financial statements as of and for the year ended December 31, 2006.

3. Accounts Receivable – Trade

At December 31, 2006 and 2005, accounts receivable – trade, are as follows:

	2006	**2005**
Customers	$ 32,563,978	$ 28,993,323
Government and municipal entities	9,370,347	5,668,078
	41,934,325	34,661,401
Unbilled revenue	6,747,192	6,624,154
Government subsidy		2,914,640
	48,681,517	44,200,195
Allowance for doubtful accounts	(3,817,906)	(4,532,456)
	$ 44,863,611	$ 39,667,739

4. Income Tax

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

The difference between the provision for income tax for the years-ended December 31, 2006 and December 31, 2005, and the income tax calculated using the enacted statutory corporate tax rate of 30% for income before income tax reported in the financial statements is attributable to the following:

(Expressed in United States dollars)

	2006	2005
Income tax:		
Computed at expected statutory rate	$ 7,774,372	$ 8,342,519
Decrease in income tax due to non-taxable income	(161,509)	(198,163)
Increase in income tax due to non-deductible expenses	270,550	38,697
Effect of change on enacted rate		388,499
Total income tax	$ 7,883,413	$ 8,571,552

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

	2006	2005
Current deferred income tax assets:		
Provision for doubtful accounts	$ 405,974	$ 358,177
Treasury lock derivative		196,068
Fuel component adjustment	1,050,195	
Other	281,086	347,622
Total deferred income tax assets	1,737,255	901,867
Current deferred income tax liabilities - fuel component adjustment	$	$ (5,017,440)
Non-courrent deffered income tax assets:		
Investment tax credit	$ 1,576,234	$ 5,075,988
Provision for contingencies	333,688	333,688
Total deferred income tax asset	1,909,922	5,409,676
Non-current deferred income tax (liabilities) - depreciation expense applicable to future periods	$ (3,203,388)	$ (3,340,126)

The Company estimates that is more likely than not that there will be enough income tax payable in future years to allow for the use of the deductible temporary differences included in the balance sheet as of December 31, 2006.

In accordance with tax regulations, the income tax returns of companies in Panama are open for examination by the tax authorities for three years. Companies are also subject to examination by the Panamanian tax authorities regarding compliance with stamp tax regulations.

5. Derivative Instrument

On December 22, 2005, the Company entered into a rate lock agreement exclusively as a tool to fix the yield on a specified treasury security used in connection with an upcoming issuance of a fixed-rate debt as a mean to minimize the Company's exposure to an increase in interest rates. This treasury lock was entered with Citibank N.A., New York, for a 120-day period and a notional amount of US$100,000,000. Under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" the Company considered this derivative instrument as a non hedging designation since criteria to qualify as a cash flow hedge were not met at the inception and high effectiveness relationship was not obtained. Accordingly, a gain of US$4,050,000 was recognized in earnings which represent the mark-to-market at the settlement date.

(Expressed in United States dollars)

6. Long-Term Debt

At December 31, 2006 and 2005, long-term notes and bank loan is as follows:

	2006	2005
Short-Term Facilities:		
The Bank of Nova Scotia	$	$ 5,000,000
Total short term facilities		5,000,000
Long-Term Notes		
Senior Notes, unsecured and unsubordinated due on 2021 with fixed rate of 7.60% per annum and semiannually interest payments	100,000,000	
Long-Term Bank Facilities:		
Syndicated long-term loan, with an annual eurodollar rate of 3 months + 3.50%, assigned as follows:		
Banco Continental de Panamá, S. A.		33,250,000
Primer Banco del Istmo, S. A.		33,250,000
Citibank, N.A., Panama Branch		19,000,000
Banco Bilbao Vizcaya Argentaria (Panamá), S. A.		9,500,000
Total long-term facilities	100,000,000	95,000,000
Less:		
Senior notes discount	(848,202)	
Current portion		(10,000,000)
Long-term debt	$ 99,151,798	$ 90,000,000

The Notes were issued pursuant to an indenture between Elektra Noreste, S.A. as issuer, and the Bank of New York, as trustee. The terms of the Indenture includes a financial covenant that impose the Company to comply with the ratio of indebtedness to EBITDA (as defined on the Indenture) not to exceed 3.25 to 1.0 for the four consecutive fiscal quarters most recent available. The Company is in compliance with all the provisions and covenants of the indenture.

Covenants
The term of the Indenture will require the Company, among other things, to:

- pay all amounts owed by us under the Indenture and the Notes when such amounts are due;
- perform all our obligations under the Indenture and the Notes;
- maintain our corporate existence;
- use reasonable best efforts to comply with all applicable laws;
- use reasonable best efforts to maintain all necessary government approvals;
- use reasonable best efforts to pay all material taxes and other claims;
- maintain independent auditors;
- use reasonable best efforts to maintain insurance;
- maintain our books and records;
- maintain an office or agency in Borough of Manhattan, the City of New York for the purpose of service of process; and
- give notice to the trustee of any defaults and events of default under the Indenture

In addition, the terms of the Indenture will restrict the Company's ability to:
- undertake certain mergers, consolidations or similar transactions;
- incur certain indebtedness;
- create liens on our assets;
- enter in or carry out transactions with affiliates;
- provision of financial statements and reports;
- further actions;
- reports to holders:
- appointment to fill a vacancy in the office of the trustee;
- listing; and
- rating agency

These covenants are subject to a number of important qualifications and exceptions.

Redemption
Unless previously redeemed, or purchased and cancelled, the Notes shall be redeemed at their principal amount in U.S. dollars on the final maturity date. The redemption price payable at such time shall be the original amount of the Notes plus accrued and unpaid interest thereon at the Note Rate and all other amounts due and payable under the terms of the Notes and the Indenture.

Events of Default
The Notes and the Indenture will contain certain events of default relating to the Company, including, among others, the following:

- failure to pay principal when due, whether on the maturity date, upon redemption or otherwise;
- failure to pay interest and other amounts within fifteen calendar days of the due date thereof;

- breach of covenants as set forth under the section "Description of the Notes."
- certain events of bankruptcy, liquidation, reorganization, dissolution, winding up or insolvency;
- failure to pay debts as such debts become due;
- defaults under certain debt instruments that, in the aggregate, equal or exceed certain specified amounts;
- the unenforceability of the Indenture or the Notes or our contesting the enforceability of the Indenture or the Notes;
- breach of a covenant or agreement in the Indenture, the Notes or the Concession Contract relating to the operation of our electricity business;
- the Concession Contract is suspended, revoked, terminated, materially amended in a manner that reasonably can be expected to have a material adverse effect or ceases to be in full force and effect in any material respect;
- certain events of nationalization, condemnation, expropriation, attachment or seizure of specified assets by the Panamanian Government;
- the Panamanian Government's suspension of payments on specified indebtedness;
- certain judgments that, in aggregate, equal or exceed certain specified amounts;
- the Indenture or the Notes, shall cease to be in full force and effect or binding and enforceable; and
- the destruction or irreparable damage of the electrical distribution facilities we operate, which is not covered by insurance.

The net proceeds from the offering of these Senior Notes were used to repay the principal and interest on the Company's Syndicated Long-Term Loan; to pay the expenses of the offering of the Notes and to the extent there are amounts remaining; to pay outstanding short-term indebtedness and for general corporate purposes.

With the final settlement of the Syndicated Long-Term Agreement occurred in July 2006, all the guarantees and mortgages set forth under the agreement were released with the repayment of the indebtedness.

The Company has available short-term facilities with Bank of Nova Scotia, Banco Bilbao Vizcaya Argentaria (Panamá), S. A., Banco General, S. A., and Citibank, N. A. Total short-term facilities of US$50,300,000 in 2006 and US$43,300,000 in 2005 with annual interest rates ranging between 6 months Libor + 1.20% and 1.50%.

(Expressed in United States dollars)

7. Purchase of Energy and Transmission Charges, Net

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

	2006	2005
Purchase of energy	$ 232,003,448	$ 201,130,024
Transmission chargers	10,116,511	8,343,175
Fuel component adjustment	20,225,450	(15,567,711)
Total net purchase of energy and transmission charges	$ 262,345,409	$ 193,905,488

Fuel Component Adjustment

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

For the last several years, the fuel component adjustment has not been fully passed through to distribution company customers in the form of a tariff increase; the amount not billed to customers has been subsidized by the Panamanian Government.

On June 28, 2006, the Panamanian Government authorized by Executive Decree No. 22 the issuance of a five year term Treasury Note with a face value of US$12,949,000. This Treasury Note was issued as a mean to partially compensate the Company for the fuel component adjustment receivable balance accumulated between April 1, 2005 and March 31, 2006 for a total of US$25,132,807. This security was accounted for as available-for-sale under SFAS No.115, "Accounting for Certain Investments in Debt and Equity Securities" and recorded at its fair value.

In July 2006, the Company sold the debt security and received proceeds for US$12,534,632 recording a realized loss on sale of US$414,368. The cost of this security was determined on a specific identification basis.

At December 31, 2006, a balance of US$3,500,649 was determined as a consequence of the variance resulting from the energy cost considered in the electric tariff for the year 2006, over the actual cost of energy purchased. The balance of US$3,500,649 is broken down with a receivable of US $1,578,351, acumulated from April to September 2006 to be recovered from customers in the first semester of 2007 and the balance of US$5,079,000 acumulated from October to December 2006 to be reimbursed to customers in the second semester of 2007.

8. Commitments and Contingencies

At December 31, 2006, the Company had contingent liabilities from claims originated by the ordinary course of business. The ultimate outcome of these contingencies is not expected to have a material impact on the Company's financial condition or operating results. At December 31, 2006 and 2005, the Company had accrued the amount of $1,112,293. Next the most representative matters:

Litigations

During 2005, a labour complaint was filed with a labour court by the Electricity Industry Workers Union of the Republic of Panama against the Company and the other seven electricity companies that originated from the privatization of the IRHE. The complaint seeks the payment of US$7,191,852.59 from the Company, plus additional amounts from the other defendants, claiming that, due to calculation errors, the Panamanian Government did not pay in full the labour rights and severance compensation of the IRHE employees who at that time agreed to terminate their existing employment, as required for the privatization of the new electric companies. This complaint has been opposed by the Company. Legal counsel of the Company is of the opinion that such complaints are groundless, since under Executive Decree No.42 of 1998, the Panamanian Government assumed full liability for the payment of any compensation or calculation adjustment due to IRHE workers terminated as part of the privatization. This case is open and waiting for evidence submission. Management considers that the outcome of this case will not have a material negative impact on the financial statements.

The Company challenged the ASEP (previously Ente Regulador de los Servicios Públicos) on Resolution JD-2626 which orders the Company to reimburse power generating companies for public lighting charges. The Company based its argument on the fact that the ASEP had previously authorized the distribution company to include public lighting charges within the wheeling charges billed to the generating companies. When the generating companies challenged these charges, the ASEP changed its previous instructions to the Company and through several resolutions, ordered the Company to not only to stop charging for public lighting but to reimburse to the generators all of the previous charges applied and already collected. The Company appealed the decision, and on June 20, 2006 the Supreme Court resolved in favor of the Company invalidating the claims and denying any reimbursement to generators.

The ASEP through Resolution JD-5956 from April 11, 2006 ordered the Company to return US$4,033,188 to the customers as a monthly credit on their bills starting May 2006 until December 2006 due to an excess of the authorized Maximum Allowed Income, charged by the Company from July 2002 through June 2006. According to the ASEP, this alleged excess was generated from the difference between the breakdown by tariff type of the forecast used to determine the tariff structure and the actual breakdown.

The Company appealed this decision due to a lack of legal grounds and also presented a revision of the study developed by the ASEP in which the difference in the "Maximum Allowed Income" caused by tariff type of the forecast used to determine the tariff structure and the actual breakdown is favorable to the Company. The ASEP decided as of June 14, 2006 to suspend any further action on Resolution JD-5956 until the Supreme Court pronounce on a related counterclaim that alleged for illegality against Resolution JD-5845.

(Expressed in United States dollars)

Commitments
As of December 31, 2006, the Company had energy and long-term firm capacity purchase contracts with the following generation companies:

Company	MW	Begin	End
Térmica del Noreste, S. A.		June 19, 2000	July 19, 2010
Bahía Las Minas	80	January 1, 2005	December 31, 2008
ESTI – AES	48.72	November 20, 2003	November 2013
AES Panamá	40	January 1, 2006	December 31, 2006
La Mina Hidro-Power	28	January 1, 2008	December 31, 2015
AES Panamá	40	January 1, 2006	December 31, 2006
AES Panamá	20	January 1, 2007	December 31, 2007
AES Panamá	20	January 1, 2006	December 31, 2006
AES Panamá	40	January 1, 2007	December 31, 2007
AES Panamá	60	January 1, 2008	December 31, 2008
Bontex	19.8	January 1, 2008	December 31, 2015
Paso Ancho Hidro-Power	4	January 1, 2008	December 31, 2015
Pedregal Power Co.	30	January 1, 2006	December 31, 2008
PanAm	60	January 1, 2006	December 31, 2008
Pedregal Power Co.	12; 5; 15	January 1, 2006	December 31, 2008
Fortuna	80	January 1, 2009	December 31, 2012
Fortuna	120	January 1, 2013	December 31, 2018
Pedregal Power Co.	10; 1; 1	January 1, 2007	December 31, 2009
Semper Group	0.001	January 1, 2007	December 31, 2008
Semper Group	30	January 1, 2009	December 31, 2010
Pan Am	16; 16; 45; 45	January 1, 2007	December 31, 2010
Fortuna	25; 5; 15	January 1, 2007	December 31, 2009
Pedregal Power Co.	42	January 1, 2009	December 31, 2009
Pan Am	32	January 1, 2009	December 31, 2009
Semper Group	0.0075	January 1, 2009	December 31, 2010
Semper Group	23	January 1, 2011	December 31, 2012
Bahía Las Minas	0.001	January 1, 2009	December 31, 2009
Bahía Las Minas	108	January 1, 2010	December 31, 2018
Bahía Las Minas	108	January 1, 2019	December 31, 2023
Pan Am	20	January 1, 2010	December 31, 2019
Pan Am	60	January 1, 2011	December 31, 2020

In accordance with the 1997 Electricity Law, the Company enters into long-term power purchase agreements with electricity generators that cover most of its regulated customers' contributions to the total peak customer demand of electricity and work towards limiting any associated energy costs. Historically, the Company contracts annually for approximately 79% to 85% of its total energy requirements via purchase agreements on the contract market. For twelve-months ended December 31, 2006, the Company purchased approximately 97.7% of its total energy requirements via power purchase agreements on the contract market. These purchase agreements include both a fixed charge based on energy capacity requirements and a variable charge based on energy use.

The Company has several unconditional long-term contracts obligations related to the purchase of energy capacity. The aggregate amount of payments required under such obligations at December 31, 2006, is as follows:

(Expressed in United States dollars)

Year		Payment Obligation
2007	$	35,877,000
2008		39,860,035
2009		40,805,306
2010		66,006,408
Thereafter		551,498,100
Total	$	734,046,849

As of December 31, 2006, the Company has on-going construction contracts for improvements and developments of the distribution system. Future commitments on these contracts amount to US$2,522,165.

On October 20, 2003, the Company and the workers' union signed a second Labor Collective Agreement for a four-year term that will expire on October 20, 2007.

Guarantees
The Company has provided limited guarantees to generating companies in order to provide for credit assurance and performance obligations under the power purchase agreements. These guarantees are not recognized on the balance sheet, because the Company believes that it is 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-months period with automatic renewals as long as the power purchase agreement is in place. The aggregate guarantee amount for the performance obligation is US$17,063,260. The Company has also issued a guarantee in favor of the ASEP for US$8,000,000 in compliance with clause 53 of the Concession Contract.

The Company has several standby letters of credit for US$5,594,650 in favor of ETESA to guarantee the payment of the energy purchase in the spot 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 generators or from the spot market.

The Company's concession contract is valid for 15-years. One year prior to the end of the 15-year period, the ASEP will hold a competitive bid for the sale of the majority stake in the Company currently held by PDG. The majority shareholder has the right to set the reserve price for the tender (by making its own bid) and will only be required to sell its share of the Company if another higher offer is made, in which case it will be entitled to the sale proceeds.
If no higher offer is made, the majority shareholder will retain its ownership for another 15-year term subject to the same renewal procedures. Resulting from this bidding process, the new majority shareholder will be granted rights to the new 15 year concession contract with no requirement to make any payments to the Panamanian Government.

(Expressed in United States dollars)

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

Operating Leases
The Company have entered into a seven year non-cancelable lease agreement which will provide for the use of office and operating facilities.

As of December 31, 2006 the future minimum rental payments required under this operating lease with initial or remaining non-cancelable lease terms in excess of one year are:

Year ending December 31:

2007	$	291,981
2008		446,731
2009		460,132
2010		473,936
2011		488,155
Later years		1,195,003
Total minimum payments required	$	3,355,938