

Elektra Noreste, S.A.

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

Financial Statements

For September 30, 2008 and December 31, 2007

Elektra Noreste, S.A.

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

Financial Statements September 30, 2008 and December 31, 2007

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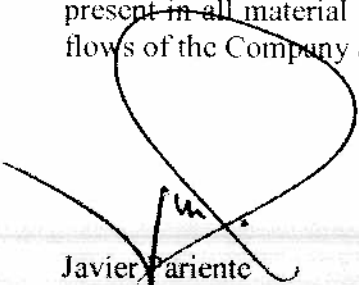


Management Responsibility for Financial Reporting

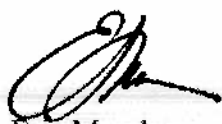
The management of Elektra Noreste, S.A. is responsible for the information and representations in the Company's financial statements. The Company prepares the financial statements in accordance with accounting principles generally accepted in the United States of America based upon available facts and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

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

Based on our knowledge, the financial statements as of September 30, 2008, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented.



Javier Pariente
Executive Vice-president &
General Manager



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

October 30, 2008
Panama, Republic of Panama

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

Balance Sheets (unaudited)
As of September 30, 2008 and December 31, 2007
(Expressed in United States dollars)

	September 30, 2008	December 31, 2007	Notes		September 30, 2008	December 31, 2007
Assets				Liabilities and Stockholders' Equity		
Current assets:				Current liabilities:		
Cash	\$ 3,090,236	\$ 6,399,567		Accounts payable:	\$ 76,069,281	\$ 51,838,006
Accounts receivable:				Generation and transmission	7,590,894	11,848,241
Trade, net:	79,167,126	48,992,532	3	Suppliers	7,525,328	6,890,657
Fuel component adjustment	52,928,351	10,830,351	2n, 6	Construction contracts	10,905,219	2,142,287
Others, net	2,242,513	1,758,728		Advance on tariffs subsidy	503,264	473,098
Accounts receivable, net	134,337,990	61,561,611		Others	12,606,474	1,597,256
Inventory	5,936,586	7,073,144		Deferred income tax	3,592,625	2,394,274
Prepaid income tax	4,315,155	2,153,309		Customer deposits	215,908	347,030
Other current assets	1,187,449	699,744		Withholding taxes		
Total current assets	148,867,416	77,907,375		Total accounts payable	119,008,993	77,530,849
Property, plant, and equipment, net of accumulated depreciation	245,675,628	241,651,345		Short-term debt	28,500,000	
Other assets:				Interest payable	1,717,940	3,546,668
Debt issuance costs	2,454,232	2,478,822		Accrued expenses	1,641,655	1,253,000
Severance fund	1,390,341	1,171,694		Total current liabilities	150,868,588	82,332,517
Security deposits on facilities	82,023	74,421		Long-term debt	99,212,121	99,185,241
Deferred Income Tax	2,353,682		4	Other liabilities:		
Total other assets	6,280,278	3,724,937		Deferred income tax		2,849,086
				Customer deposits	5,997,131	7,125,023
				Contingency reserve	694,166	725,218
				Other accrued liabilities	1,363,851	1,418,217
				Total liabilities	258,135,857	193,635,302
				Stockholders' equity:		
				Common stock authorized, issued and outstanding: 50,000,000		
				shares without par value: 160,031 held in treasury	106,096,875	106,096,875
				Retained earnings	36,588,590	23,549,480
				Total stockholders' equity	142,687,465	129,646,355
Total assets	\$ 400,823,322	\$ 323,283,657		Total liabilities and stockholders' equity	\$ 400,823,322	\$ 323,283,657

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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

Statements of Income (unaudited)**For the nine months ended September 30, 2008 and 2007****(Expressed in United States dollars)**

	Notes	September 30, 2008	September 30, 2007
Revenues:			
Net energy sales		\$ 369,777,199	\$ 260,371,965
Other revenues		6,104,622	5,648,997
Total revenues		375,881,821	266,020,962
Purchase of energy and transmission charges, net	6	313,612,416	209,541,657
Gross distribution margin		62,269,405	56,479,305
Operating expenses:			
Labor and other personnel		6,748,983	6,129,128
Severance expenses		253,277	242,498
Provision for doubtful account, net		4,041,354	1,796,938
Repair and maintenance		2,028,645	2,044,922
Professional services		6,833,138	6,642,104
Management fees		1,477,335	1,406,597
Depreciation and amortization		9,655,296	9,388,771
Administrative and other		6,438,715	5,333,655
Loss on sale of fixed asset		75,267	26,969
Total operating expenses		37,552,010	33,011,582
Operating income		24,717,395	23,467,723
Other income (expense):			
Interest income		1,242,140	1,149,016
Interest expense		(6,678,629)	(6,287,447)
Total other expenses		(5,436,489)	(5,138,431)
Income before income taxes		19,280,906	18,329,292
Income taxes expenses	4	5,746,618	5,860,115
Net income		\$ 13,534,288	\$ 12,469,177

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Statements of Changes in Equity (unaudited)

For the nine months ended September 30, 2008 and 2007

(Expressed in United States dollars)

	Common Stock	Treasury Stock	Retained Earnings	Total Equity
Balance as of December 31, 2006	\$ 106,642,962	\$ (544,087)	\$ 16,954,728	\$ 123,053,603
Declared dividends			(10,000,000)	(10,000,000)
Net income			12,469,177	12,469,177
Complementary dividend tax			<u>(170,007)</u>	<u>(170,007)</u>
Balance as of September 30, 2007	106,642,962	(544,087)	19,253,898	125,352,773
Balance as of December 31, 2007	106,642,962	(544,087)	23,549,480	129,648,355
Net income			13,534,288	13,534,288
Complementary dividend tax			<u>(495,178)</u>	<u>(495,178)</u>
Balance as of September 30, 2008	<u>\$ 106,642,962</u>	<u>\$ (544,087)</u>	<u>\$ 36,588,590</u>	<u>\$ 142,687,465</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Statements of Cash Flows (unaudited)**For the nine months ended September 30, 2008 and 2007****(Expressed in United States dollars)**

	September 30, 2008	September 30, 2007
Cash flows from operating activities:		
Net income	\$ 13,534,288	\$ 12,469,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,655,296	9,388,771
Loss on sale of fixed asset	75,267	26,969
Provision for doubtful accounts	4,041,354	1,796,938
Discount amortization of senior notes	26,880	24,924
Amortization of debt issuance costs	80,590	74,581
Provision for severance payments net of contribution to severance fund	(103,048)	(1,485)
Deferred income tax	5,806,451	2,992,426
Fuel component adjustment	(42,098,000)	(7,232,000)
Change in operating assets and liabilities:		
Accounts receivable	(25,936,801)	(10,043,733)
Other assets	(495,309)	(812,630)
Inventory	1,136,558	(1,129,188)
Trade accounts payable and other liabilities	19,004,030	9,107,632
Accounts payables others	30,166	(19,996)
Income tax	(2,161,846)	(8,327,273)
Seniority premium payments	(99,184)	(60,847)
Complementary Tax	<u>(495,178)</u>	<u>(170,007)</u>
Net cash (used) provided by operating activities	<u>(17,998,486)</u>	<u>8,084,259</u>
Cash flows from investing activities:		
Acquisition of fixed assets	(13,988,980)	(14,874,550)
Proceeds from sales of fixed assets	<u>234,135</u>	<u>150,537</u>
Net cash used in investing activities	<u>(13,754,845)</u>	<u>(14,724,013)</u>

(Continued)

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Statements of Cash Flows (unaudited)**For the nine months ended September 30, 2008 and 2007****(Expressed in United States dollars)**

	September 30, 2008	September 30, 2007
Cash flows from financing activities:		
Short-term debt, net	\$ 28,500,000	\$
Debt issuance costs	(56,000)	
Dividends paid		<u>(10,000,000)</u>
Net cash provided (used) in financing activities	<u>28,444,000</u>	<u>(10,000,000)</u>
Cash and cash equivalents:		
Net decrease for the period	(3,309,331)	(16,639,754)
Beginning of the period	<u>6,399,567</u>	<u>18,266,568</u>
Cash at the end of the period	<u>\$ 3,090,236</u>	<u>\$ 1,626,814</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 8,188,137</u>	<u>\$ 7,828,626</u>
Income taxes	<u>\$ 2,102,014</u>	<u>\$ 11,194,962</u>

(Concluded)

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Notes to financial statements

For the nine months ended September 30, 2008 and 2007

(Expressed in United States dollars)

1. Nature of Business and Basis of Presentation

Nature of Business

Elektra Noreste, S.A. (the Company) is a corporation formed as a result of the privatization of the Institute for Hydraulic Resources and Electricity (Instituto de Recursos Hidráulicos y Electrificación ("IRHE") in Spanish). The Company was incorporated by means of Public Deed No.143, dated January 19, 1998, and began operations in January 1998. The authorized capital stock of the Company consists of fifty million common shares without par value. At present, Panama Distribution Group, S.A. ("PDG") owns 51% of the authorized, issued and outstanding shares of common stock of the Company, while the 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 7, the Company has exclusivity for the distribution and commercialization of electric power to customers located in the geographical areas of Panama East, Colon, Panama Bay, the Comarca of San Blas and Darien. In 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.

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Notes to financial statements

For the nine months ended September 30, 2008 and 2007

(Expressed in United States dollars)

2. Significant Accounting Policies

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

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

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

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

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

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Notes to financial statements

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(Expressed in United States dollars)

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

Costs associated with improvements made to property, plant and equipment are capitalized as well as major disbursements for renewals. Costs associated with ~~repairs and minor replacements~~ are expensed as incurred. Major maintenance costs procedures that do not extend the useful life by improving the conditions of the asset to the state it held when it was originally purchased are also expensed.

The Company also capitalizes interest during construction in accordance with Statement of Financial Accounting Standards ("SFAS") No.34, "Capitalization of Interest Costs". As of June 30, 2008 and 2007 the Company had capitalized interest for US\$18,000 in both years.

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 September 30, 2008 and December 31, 2007, no impairments of long-lived assets were identified.

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

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

	<u>Estimated Useful Life (in years)</u>
Poles, towers and 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

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

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

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

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Notes to financial statements

For the nine months ended September 30, 2008 and 2007

(Expressed in United States dollars)

- h. Income Taxes** - Income taxes are accounted for under the asset-liability method as prescribed by SFAS No.109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Statement of Income in the period that includes the enactment date.
- i. Investment Tax Credit** - The Company accounts for Investment Tax Credit ("ITC") under the flow-through accounting method (full recognition in the period the asset is placed in service). Thus, a future deductible temporary difference exists, with which a deferred income tax asset is associated.
- j. Customer Deposits** - The Company requires customers to provide cash deposits as a guarantee of payment for energy consumed, according to the legislation set forth by the ASEP. The ASEP has issued resolutions JD-219 (March 31, 1998) and JD-761 (June 8, 1998) which provide that in those cases where the customer has established a good payment record, defined as no more than three late payments in a twelve-month period, the deposit shall be returned.
- k. Contingencies** - In the normal course of business, the Company is subject to various regulatory actions, proceedings, and lawsuits related to tax or other legal matters. The Company establishes reserves for these potential contingencies when they are deemed probable and reasonably estimable. For further discussion of contingencies, see Note 7.
- l. Seniority Premium and Severance Fund** - According to the Panamanian Labor Code, upon the termination of any employee contracted for an indefinite period of time, regardless the cause, the employee is entitled to a seniority premium at the rate of one week's salary for every year of work, since they were first employed. Seniority premiums represent 1.92% of total salaries paid.

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

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Notes to financial statements

For the nine months ended September 30, 2008 and 2007

(Expressed in United States dollars)

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

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

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 sheets as a related company payable.

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

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

Regulatory assets and liabilities reflected in the Company's balance sheets at September 30, 2008 and December 31, 2007 relate to the following:

Elektra Noreste, S.A.**(a 51% owned subsidiary of Panama Distribution Group, S.A.)****Notes to financial statements****For the nine months ended September 30, 2008 and 2007****(Expressed in United States dollars)**

	September 30, 2008	December 31, 2007	Note
Fuel component adjustment - asset	\$ 52,928,351	\$ 10,830,351	See Note 6 "Fuel component adjustment"
Deferred income tax - liabilities	<u>(15,878,505)</u>	<u>(3,249,105)</u>	
	<u>\$ 37,049,846</u>	<u>\$ 7,581,246</u>	

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

o. Revenue Recognition**Energy Sales**

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

At the end of each month, a portion of energy delivered and consumed by the clients is out of their corresponding cycle of reading. As a result of this, the Company must estimate the income related to the energy consumed by the clients between the date that the meter was read and the end of the month. This estimation is calculated on the basis of the daily average of the energy invoiced for

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(Expressed in United States dollars)

each client of the Company applied to the number of days not included in the invoice. The result is recorded as unbilled revenue within the trade receivable on the balance sheet. The Company considers that the future invoices of this unbilled energy will not differ significantly from the estimation.

Other Revenues

The Company recognizes connection and reconnection charges, pole rentals, and wheeling charges as service is rendered. The credit balances of finalized accounts are recognized as income after six months of finalized the account. These charges are included in other operating revenue in the Income Statements.

- p. Use of Estimates** - The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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, collection or reimbursement of the fuel component adjustment account 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 from those estimates.
- q. Concentration of Credit Risk** - The Company has exclusivity for the distribution and marketing of electric power to customers located in its concession zone. The Company does not believe that significant risk of loss from a concentration of credit risk exists given the large number of customers that comprise its customer base and their geographical dispersion. The Company also believes that its potential credit risk is adequately covered by the allowance for doubtful account.
- r. Environmental Matters** - The Company is subject to a broad range of environmental, health and safety laws and regulations. In July 1998, the Panamanian Government enacted environmental legislation creating an environmental protection agency (Autoridad Nacional del Medio 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.

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(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.

s. *Recent Accounting Pronouncements*

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

In June 2006, the Financial Accounting Standards Board ("FASB") released Interpretation No.48 ("FIN" No.48), "Accounting for Uncertainty 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 adopted FIN No.48 as from January 1, 2007. The adoption of this interpretation did not have any impact in the Company's financial statements.

In September 2006, the FASB issued SFAS No.157, "Fair Value Measurements". 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 for annual periods beginning after November 15, 2007. The Company has not had, nor expects a material change neither in the financial situation nor in the results products of the application of this norm.

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(Expressed in United States dollars)

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities". This statement permits, but does not require, companies to account for financial instruments at fair value that are not otherwise required to be measured at fair value. The statement is effective for fiscal years beginning after November 15, 2007. The Company has not had, nor expects a material change neither in the financial situation nor in the results products of the application of this norm.

3. Accounts Receivable – Trade

At September 30, 2008 and December 31, 2007, accounts receivable – trade, are as follows:

	September 30, 2008	December 31, 2007
Customers	\$ 62,968,205	\$ 44,364,605
Government and municipal entities	<u>15,258,560</u>	<u>5,344,040</u>
	78,226,765	49,708,645
Unbilled revenue	<u>9,659,332</u>	<u>6,429,577</u>
	87,886,097	56,138,222
Allowance for doubtful accounts	<u>(8,718,971)</u>	<u>(7,145,690)</u>
Total	<u>\$ 79,167,126</u>	<u>\$ 48,992,532</u>

The allowance for doubtful accounts represented expenses at September 30, 2008 and 2007 by US\$4,041,354 and US\$1,796,938, respectively. During year 2007 there was no write off of doubtful accounts; in April 2008 the write off totalized US\$ 2,671,554.

4. Income Tax

The provision for income tax is determined based on book income before income taxes, adjusted for any non-taxable income and non-deductible expenses. The statutory

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income tax rate is 30%. Deferred income tax is recognized for the effects of all temporary differences between the book and tax basis of assets and liabilities. A valuation reserve is recorded to reduce the value of deferred tax assets when it is more likely than not that tax benefits will not be totally realized.

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

	September 30, 2008	December 31, 2007
Current deferred income tax assets:		
Loss carryforward	\$ 1,277,382	\$
Provision for doubtful accounts	986,754	704,730
Investment tax credit	798,292	775,343
Other	209,603	171,776
Total deferred income tax assets	<u>3,272,031</u>	<u>1,651,849</u>
Current liability-fuel component adjustment	<u>(15,878,505)</u>	<u>(3,249,105)</u>
Current deferred income tax liability, net	<u>\$ (12,606,474)</u>	<u>\$ (1,597,256)</u>
Non-current deferred income tax assets:		
Loss carryforward	\$ 5,109,530	\$
Provision for contingencies	<u>208,250</u>	<u>217,566</u>
Total deferred income tax assets	<u>5,317,780</u>	<u>217,566</u>
Non-current liability-depreciation expense	<u>(2,964,098)</u>	<u>(3,066,652)</u>
Non-current deferred income tax assets (liability), net	<u>\$ 2,353,682</u>	<u>\$ (2,849,086)</u>

Under FIN No. 48, the Company is required to recognize the financial statement effects of tax positions if they meet a "more-likely-than-not" threshold. In evaluating items relative to this threshold, the Company must assess whether each tax position will be sustained based solely on its technical merits assuming examination by a taxing authority. The interpretation requires the Company to establish liabilities to reflect the portion of those positions that cannot be concluded as "more likely than not" of being

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realized upon ultimate settlement. These are referred to as liabilities for unrecognized tax benefit under FIN No. 48. Upon adoption of 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 ultimately realized in the financial statements.

In accordance with tax regulations, the income tax returns of companies in Panama are open for examination by the tax authorities for three years. Therefore, years from 2005 are subject to examination by tax authorities, although no examination is currently scheduled or in process. Years prior to 2005 are closed years

Investment Tax Credit

During 2001, the Company received an investment tax credit of US\$13,673,745 which was granted by the Panamanian Government under an incentive law that promoted investments in infrastructure to enhance the energy distribution network. The tax credit can be used as a reduction of up to 25% of the income tax incurred in any given year, until 100% of the amount pending to be realized in future years is consumed.

Due to the benefit received, the Company is not allowed to deduct for tax purposes, the depreciation on the US\$13,673,745 of infrastructure invested. The tax effect of this is US\$4,102,123 (US\$13,673,745 x 30%).

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5. Debt

At September 30, 2008 and December 31, 2007, bank debts and notes are as follows:

	September 2008	December 31, 2007
Short-Term Credit Facilities		
The Bank of Nova Scotia		
Short term line of credit authorized for		
the amount of US\$20,000,000 in 2008 and 2007		
with an annual interest of Libor 1 to 6 months		
plus margin	\$ 10,000,000	\$
Banco General, S. A.		
Short term line of credit authorized for		
the amount of US\$20,000,000 in 2008 and		
US\$18,000,000 in 2007; with an annual interest		
of Libor according to the maturity date plus margin	1,000,000	
HSBC Bank (Panama), S. A.		
Short term line of credit authorized for		
the amount of US\$10,000,000 in 2008		
with an annual interest of Libor 1 to 6 months		
plus margin	10,000,000	
Banco Bilbao Viscaya Argentaria (Panama), S. A.		
Short term line of credit authorized for		
the amount of US\$20,000,000 in 2008 and		
US\$10,000,000 in 2007; with an annual interest		
of Libor 1 month plus margin	<u>7,500,000</u>	
Short-term debt	<u>\$ 28,500,000</u>	<u>\$</u>

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	September 2008	December 31 2007
Long-Term Notes		
Senior Notes, unsecured and unsubordinated due on 2021 with fixed rate of 7.60% per annum and semiannual interest payments	\$ 100,000,000	\$ 100,000,000
Less:		
Senior notes discount	<u>(787,879)</u>	<u>(814,759)</u>
Long-term debt	<u>\$ 99,212,121</u>	<u>\$ 99,185,241</u>

The Senior Notes (the Notes) were issued on June 30, 2006 pursuant to an indenture between the Company 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.

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.

The net proceeds from the offering of these Notes were used to repay the principal and interest on the Company's Syndicated Long-Term Loan for the amount of US\$95,104,388; to pay the expenses of the offering of the Notes and to the extent there were amounts remaining; to pay outstanding short-term indebtedness and for general corporate purposes.

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

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Additionally, the Company maintains credit lines facilities with five of the principals local banks. At September 30, 2008 and December 31, 2007, the total short-term facilities is US\$82,500,000 and US\$60,500,000 respectively, for each of this lines, applies a annual interest rate according to Libor between 1 to 6 months depending to the terms granted plus a margin between 1.20% and 1.50%. This credit lines are no subject to guarantees and they are available maximum for one year period according to the needs of working capital or other necessities.

6. Purchase of Energy and Transmission Charges, Net

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

	September 30, 2008	September 30, 2007
Purchase of energy	B/. 347,667,679	B/. 208,901,184
Transmission charges	8,042,737	7,872,473
Fuel component adjustment	<u>(42,098,000)</u>	<u>(7,232,000)</u>
 Total net purchase of energy and transmission charges	 B/. <u>313,612,416</u>	 B/. <u>209,541,657</u>

Fuel Component Adjustment

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

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

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At September 30, 2008, a net receivable balance of US\$52,928,351 was determined as a consequence of the variance resulting from the energy cost considered in the electric tariff from July 2007 thru September 2008 over the actual cost of energy purchased. The balance is comprised of receivables of US\$3,403,351, accumulated from July to December 2007 to be recovered from customers in the last quarter of 2008, and of US\$29,270,000 accumulated from January to June 2008, part of it should be recovered from customers in the last quarter of 2008 through the fuel clause, the difference should be recovered in the first semester of 2009 through the semi annual tariff adjustment and US\$20,255,000 accumulated from July to September 2008, part of it should be recovered from customers in the last quarter 2008, the difference should be recovered in the second semester of 2009 through the semester tariff adjustment.

7. Commitments and Contingencies

The Company maintains commitments and obligations as result of issues generated from the ordinary course of business, is not expected to have a material impact on the Company's financial position, result of operations or liquidity. At September 30, 2008 and December 31, 2007, the Company had total reserves for loss contingencies in the amount of US\$694,166 and US\$725,218 respectively; for possible losses resulting from third parties claims. Following are the most representative matters:

Litigations

The ASEP through Resolution JD-5863 from February 17, 2006 approved the Title IV of the Distribution and Commercialization Regimen enacted from July 2006 through June 2010, which contains a provision on its article number 22, requiring that excess earnings considered above a reasonable margin of the Company Maximum Allowed Income at the end of each tariff reset period will cause an adjustment by reducing the next approved Maximum Allowed Income provided on the following tariff reset. The ASEP has yet to determine the procedure to calculate and adjust this possible excess. An appeal has been received by the Supreme Court to suspend the effects of this resolution on the grounds of illegality; no further action will be taken by the ASEP until final settlement is concluded. The Company's management does not believe that final outcome of this proceeding will have a material impact on its financial condition, results of operation, or cash flows.

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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 a similar Resolution.

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As of September 30, 2008, the Company had energy and long-term firm capacity purchase contracts with the following generation companies:

<u>Company</u>	<u>MW (Monthly)</u>	<u>Begins</u>	<u>Ends</u>
AES Panamá	20; 40; 60	January 1, 2006	December 31, 2008
Autoridad del Canal de Panamá	30; 22	January 1, 2010	December 31, 2011
Bahía Las Minas	80	January 1, 2005	December 31, 2008
Bahía Las Minas	0.001	January 1, 2009	December 31, 2009
Bahía Las Minas	10.13	January 1, 2009	December 31, 2009
Bahía Las Minas	108	January 1, 2010	December 31, 2023
Energía y Servicios de Panamá	0.96	July 1, 2009	June 30, 2014
ESTI – AES	48.72	November 20, 2003	November 20, 2013
Fortuna	25; 5; 15	January 1, 2007	December 31, 2009
Fortuna	59	January 1, 2009	December 31, 2009
Fortuna	55.5	January 1, 2010	December 31, 2011
Fortuna	80	January 1, 2009	December 31, 2012
Fortuna	120	January 1, 2013	December 31, 2018
Generadora del Atlántico	30	July 1, 2009	June 30, 2014
Inversiones y Desarrollo Balboa	16.6	August 1, 2008	December 31, 2008
Inversiones y Desarrollo Balboa	24.6	January 1, 2009	December 31, 2011
Pan Am	60	January 1, 2006	December 31, 2008
Pan Am	32	January 1, 2009	December 31, 2009
Pan Am	16; 16; 45; 45	January 1, 2007	December 31, 2010
Pan Am	20	January 1, 2010	December 31, 2019
Pan Am	60	January 1, 2011	December 31, 2020
Paso Ancho Hidro-Power	4	January 1, 2008	December 31, 2015
Pedregal Power Co.	30	January 1, 2006	December 31, 2008
Pedregal Power Co.	12; 5; 15	January 1, 2006	December 31, 2008
Pedregal Power Co.	10; 1; 1	January 1, 2007	December 31, 2009
Pedregal Power Co.	4	January 1, 2009	December 31, 2009
Pedregal Power Co.	42	January 1, 2009	December 31, 2009
Pedregal Power Co.	15	January 1, 2010	December 31, 2011
Semper Group.	0.001	January 1, 2007	December 31, 2008
Semper Group	0.0075	January 1, 2009	December 31, 2010
Semper Group.	30	January 1, 2009	December 31, 2010
Semper Group	23	January 1, 2011	December 31, 2012
Térmica del Caribe	2.85	March 1, 2009	March 31, 2014
Térmica del Noreste, S.A.	as requested capacity	June 19, 2000	July 19, 2010

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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 95% of its total energy requirements via purchase agreements on the contract market. For the third quarter of 2008 and the period ended December 31, 2007, the Company purchased approximately 82% and 93%, respectively, of its total energy requirements via power purchase agreements on the contract market. These purchase agreements include both a fixed charge based on energy capacity requirements and a variable charge based on energy use.

The company maintains several unconditional long term contracts related to the purchase of energy capacity. At September 30, 2008, the aggregate amount of future ~~payments required under such unconditional long term contracts~~, is as follows:

Year	Payment Obligation
2008	\$ 9,613,783
2009	59,673,866
2010	88,752,248
2011	88,556,668
2012	68,405,868
Thereafter	<u>571,687,614</u>
Total	<u>\$ 886,690,047</u>

As of September 30, 2008 and 2007, the Company has expensed the amount of US\$28,841,348 and US\$26,908,722 respectively, on such unconditional long-term contracts.

As of September 30, 2008, the Company has on-going construction contracts for improvements and developments of the distribution system. Future commitments on these contracts amount to US\$1,911,048 that will be paid in 2008.

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On February 2008, the Company and the workers' union signed a third Labor Collective Agreement for a four-year term that expired on February 1, 2012. This agreement does not maintain additional material commitments besides those established in the labor law.

Operating Leases

The Company has entered into a seven year non-cancelable lease agreement which will provide for the use of office and operating facilities. As of September 30, 2008 the future minimum rental payments required under this operating lease with initial or remaining non-cancelable lease terms in excess of one year are:

Year	Amount
2008	\$ 112,778
2009	460,133
2010	473,936
2011	488,155
2012	502,799
Thereafter	<u>692,203</u>
Total minimum payments required	<u>\$ 2,730,004</u>

As of September 30, 2008 and 2007 the total rental expense for all operating leases is US\$1,167,336 and US\$1,111,232 respectively .

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 sheets, 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\$17,816,230. The Company has also issued a guarantee in favor of the ASEP for US\$8,000,000 in compliance with clause 53 of the Concession Contract.

The Company has several standby letters of credit for US\$8,992,935 in favor of ETESA to guarantee the payment of transmission costs and energy purchases in the energy

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exchange market. The Company also has a standby letter of credit for US\$797,471 in favor of Telvent Energía y Medio Ambiente, S.A. to guarantee the payment of a software development.

Concession Contract

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

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

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

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