

**Free English Language Translation
from Spanish Version**

Elektra Noreste, S. A.

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

**Financial Statements
June 30, 2013 y 2012**

Elektra Noreste, S. A.

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

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**To the Board of Director of
Elektra Noreste, S. A.**

Public Accountant Report

Board of Directors
Elektra Noreste, S.A.

We have reviewed the attached interim financial statements of Elektra Noreste, S.A. (the "Company"), which comprise the balance sheets as of June 30, 2013 and December 31, 2012, and the income statements, the statements of changes in shareholders' equity, and cash flow statement for the six months ended on that date, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility over the Interim Financial Statements

The administration of Elektra Noreste, S.A. is responsible for the information and representation in the financial statements of the Company. The Company prepares the interim financial statements in accordance with the Accounting Principles Generally Accepted in the United States of America, based on available facts and circumstances, in the best estimates of management and the assessment of existing conditions.

The company maintains an accounting system and its respective internal control system design to provide reasonable assurance to the management of Elektra Noreste, S.A. regarding the preparation of reliable financial statements, that its accounting records are correct, and that the Company's asset are protected. The internal audit staff of the Company carries out periodic reviews to maintain the effectiveness of internal control procedures, corrective actions are taken to remedy control deficiencies and other opportunities for improving the system are addressed as they are identified.

Public Accountant's Responsibility

Our responsibility is to ensure the reasonability of these interim financial statements based on our review. A review involves performing procedures to obtain review evidence about the amounts and disclosures in the financial statement. The selected procedure depends on our judgment, including the assessment of risk of material misstatement relating to the financial statement, whether due to fraud or error. By making those risk assessments, we have considered the internal controls relevant for the fair preparation and presentation of the financial statements of Elektra Noreste, S.A. in order to design review procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. A review also includes evaluating the appropriateness of the principles of accounting policies used and the reasonability of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the evidence of the review that we have obtained is sufficient and appropriate to provide a reasonable basis. In our consideration, the interim financial statements present fairly, in all material aspects, the financial position of the Company as of June 30, 2013, and its financial performance, and its cash flows for the six months then ended, in accordance with the Accounting Principles Generally Accepted in the United States of America.

Eric Morales
CPA No.1769
Panama, August 6, 2013

Elektra Noreste, S. A.

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

Balance Sheet**June 30, 2013 and December 31, 2012**

Assets	2013	2012	Liabilities and Stockholders' Equity	2013	2012
Current assets			Current liabilities		
Cash and cash equivalents	\$ 52,135,569	\$ 41,773,932	Accounts payable:		
Accounts receivable:			Generation and Transmission	\$ 73,544,484	\$ 64,344,564
Trade and other, net (Note 3)	78,529,717	94,148,307	Suppliers	11,443,887	16,475,758
Regulatory asset (Note 2 and 6)	<u>1,253,753</u>	<u>-</u>	Government Subsidy (Note 3 and 6)	7,724,865	-
Accounts receivable, net	79,783,470	94,148,307	Construction Contracts	13,875,528	12,835,758
Inventory	16,475,579	14,880,139	Regulatory liability (Note 2 and 6)	-	1,865,247
Deferred income tax (Note 4)	3,292,872	1,519,420	Income tax payable	1,688,951	17,630,523
Other current assets	<u>683,665</u>	<u>1,276,641</u>	Customers' deposits	1,556,603	2,029,216
Total current assets	<u>152,371,155</u>	<u>153,598,439</u>	Withholding taxes	<u>281,928</u>	<u>641,189</u>
Property, plant, and equipment, net	315,250,609	305,705,566	Total accounts payable	110,116,246	115,822,255
Severance fund	2,328,049	2,126,939	Interest payable on debt	3,829,926	3,835,057
Security deposits on facilities	102,803	103,573	Accrued expenses	<u>2,293,520</u>	<u>2,811,260</u>
Intangibles, net	8,425,728	7,502,318	Total current liabilities	116,239,692	122,468,572
Parts and spare parts	<u>503,590</u>	<u>517,303</u>	Long-term debt (Note 5 and 8)	196,055,779	196,263,963
Total other assets	11,360,170	10,250,133	Customer deposits and other liabilities:		
			Deferred income tax (Note 4)	2,507,885	2,549,031
			Customer's deposits	4,928,674	4,483,248
			Provision for contingencies (Note 7)	78,610	78,610
			Other accrued liabilities	<u>2,315,234</u>	<u>2,334,959</u>
			Total liabilities	<u>322,125,874</u>	<u>328,178,383</u>
			Commitments and contingencies (Note 7)		
			Shareholders' equity:		
			Authorized and issued common stock 50,000,000		
			shares without par value; 160,031 stock in treasury	106,098,875	106,098,875
			Retained earnings	<u>50,757,185</u>	<u>35,276,880</u>
			Total shareholders' equity	<u>156,856,060</u>	<u>141,375,755</u>
Total assets	<u>\$ 478,981,934</u>	<u>\$ 469,554,138</u>	Total liabilities and shareholders' equity	<u>\$ 478,981,934</u>	<u>\$ 469,554,138</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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

Income Statement**For the six months ended June 30, 2013 and 2012**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenues:				
Energy sales	\$ 137,623,638	\$ 141,620,864	\$ 264,514,088	\$ 285,887,924
Other revenues	3,029,160	2,762,210	5,945,130	5,229,913
Total revenues	<u>140,652,798</u>	<u>144,383,074</u>	<u>270,459,218</u>	<u>291,117,837</u>
Purchase of energy and transmission charges, net (Note 6)	<u>110,599,542</u>	<u>115,378,314</u>	<u>211,291,090</u>	<u>234,366,786</u>
Gross distribution margin	<u>30,053,256</u>	<u>29,004,760</u>	<u>59,168,128</u>	<u>56,751,051</u>
Operating expenses:				
Labor and other personnel	2,281,489	2,045,851	4,604,030	4,381,233
Severance expenses	76,772	114,542	131,875	223,854
Provision for doubtful accounts, net	170,988	282,787	602,478	420,050
Repair and maintenance	909,518	846,240	1,718,175	1,654,257
Professional services	4,177,355	3,355,323	7,834,953	6,731,558
Depreciation and amortization	4,815,988	4,042,828	9,821,825	8,179,476
Administrative and other	1,802,897	2,292,220	4,546,395	4,630,634
Loss on disposal of fixed asset	183,769	65,121	386,999	182,398
Total operating expenses	<u>14,418,776</u>	<u>13,044,912</u>	<u>29,646,730</u>	<u>26,403,460</u>
Operating income	<u>15,634,480</u>	<u>15,959,848</u>	<u>29,521,398</u>	<u>30,347,591</u>
Other income (expense):				
Other income	137,218	137,200	301,763	549,826
Interest income	496,789	207,493	929,602	485,082
Interest expense	(2,783,999)	(2,074,115)	(5,565,515)	(4,390,612)
Total other expenses	<u>(2,149,992)</u>	<u>(1,729,422)</u>	<u>(4,334,150)</u>	<u>(3,355,704)</u>
Income before income taxes	<u>13,484,488</u>	<u>14,230,426</u>	<u>25,187,248</u>	<u>26,991,887</u>
Income taxes (Note 4):				
Current	4,173,940	12,970,347	9,369,431	14,936,897
Deferred	(176,092)	(8,692,987)	(1,814,598)	(6,929,171)
Total income taxes	<u>3,997,848</u>	<u>4,277,360</u>	<u>7,554,833</u>	<u>8,007,726</u>
Net income	<u>\$ 9,486,640</u>	<u>\$ 9,953,066</u>	<u>\$ 17,632,415</u>	<u>\$ 18,984,161</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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**Statement of Changes in Shareholders' Equity
For the six months ended June 30, 2013 and 2012**

	Common Stock	Treasury Stock	Retained Earnings	Total
Balance as of January 1, 2012	\$ 106,642,962	\$ (544,087)	\$ 41,812,767	\$ 147,911,642
Net income	-	-	18,984,161	18,984,161
Dividends paid	-	-	(12,001,882)	(12,001,882)
Accredited prepaid dividend tax	-	-	480,075	480,075
Prepaid dividend tax paid	<u>-</u>	<u>-</u>	<u>(506,015)</u>	<u>(506,015)</u>
Balance as of June 30, 2012	106,642,962	(544,087)	48,769,106	154,867,981
Balance as of December 31, 2012	106,642,962	(544,087)	35,276,880	141,375,755
Net income	-	-	17,632,415	17,632,415
Prepaid dividend tax paid	<u>-</u>	<u>-</u>	<u>(2,152,110)</u>	<u>(2,152,110)</u>
Balance as of June 30, 2013	<u>\$ 106,642,962</u>	<u>\$ (544,087)</u>	<u>\$ 50,757,185</u>	<u>\$ 156,856,060</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Cash Flow Statement**For the six months ended June 30, 2013 and 2012**

	2013	2012
Cash flows from operating activities:		
Net income	\$ 17,632,415	\$ 18,984,161
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,821,825	8,179,476
Loss on disposal of fixed asset	386,999	182,398
Provision for doubtful accounts, net of recovery	602,478	420,050
Discount amortization of senior notes	25,812	23,934
Amortization of debt issuance costs	127,682	88,560
Provision for severance payments net of contribution to severance fund	(37,345)	51,520
Deferred income tax	(1,814,598)	(6,929,169)
Regulatory asset (liability)	(3,119,000)	25,050,000
Change in operating assets and liabilities:		
Accounts receivable	22,740,977	(49,914,632)
Inventory	(1,595,440)	(3,637,341)
Other assets	546,238	941,188
Trade accounts payable and other liabilities	4,229,627	1,993,472
Income tax	(15,941,572)	11,747,765
Seniority premium	<u>(53,396)</u>	<u>(54,833)</u>
Net cash provided by operating activities	<u>33,552,702</u>	<u>7,126,549</u>
Cash flows from investing activities:		
Acquisition of fixed assets	(20,724,647)	(19,811,434)
Proceeds from sales of fixed assets	<u>47,370</u>	<u>(58,080)</u>
Net cash used in investing activities	<u>(20,677,277)</u>	<u>(19,869,514)</u>

(Continued)

Elektra Noreste, S.A.

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Cash Flow Statement**For the six months ended June 30, 2013 and 2012**

	2013	2012
Cash flows from financing activities:		
Proceeds from short-term debt	\$ -	\$ 25,500,000
Debt issuance cost	(361,678)	-
Accredited prepaid dividend tax	-	480,075
Prepaid dividend tax paid	(2,152,110)	(506,015)
Dividends paid	<u>-</u>	<u>(12,001,882)</u>
Net cash (used) provided by financing activities	<u>(2,513,788)</u>	<u>13,472,178</u>
Cash and cash equivalents:		
Net increase for the period	10,361,637	729,213
Cash at the beginning of year	<u>41,773,932</u>	<u>3,398,707</u>
Cash at the end of period	<u>\$ 52,135,569</u>	<u>\$ 4,127,920</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest, net of amounts capitalized	<u>\$ 5,356,301</u>	<u>\$ 4,217,819</u>
Income taxes	<u>\$ 25,311,002</u>	<u>\$ 3,189,132</u>

(Concluded)

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

1. Nature of Operations

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

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

Under the concession contract described in Note 7, the Company has exclusive rights for the distribution and sale of electric power to customers located in the geographical areas of Panama East, Colon, the Bay of Panama, the Comarca Guna Yala and Darien. Exclusive rights in the distribution phase also includes “large customers” which are defined by Law 6 of February 3, 1997, as those customers with peak demand over 100 KW per site, who have the option to purchase energy directly from other agents of the electricity market.

2. Summary of Significant Accounting Policies

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

Basis for Presentation

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

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

Elektra Noreste, S.A.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Accounts Receivable

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

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

Regulatory Assets (Liabilities)

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

Inventory

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

Property, Plant, and Equipment

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

Elektra Noreste, S.A.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Costs associated with significant improvements made to the property, the plant and equipment are capitalized as well as disbursements for significant renovations. Costs associated with repairs and minor replacements are expensed as incurred. The Company also capitalizes interest incurred during the construction period in accordance with ("Accounting Standards Codification") ("ASC") No.835, "Interest" issued by the "Financial Accounting Standard Board" ("FASB").

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through operations, according to the ASC 360 Property, plant and equipment (ASC 360-10-35), "Impairment or Disposal of Long-Lived Assets". If the carrying value of the asset exceeds the discounted future cash flows generated by the asset or group of assets, a loss due to damages is acknowledged and the asset is recorded at market value. The fair value can be determined through the use of quotes from market prices, appraisals or other valuation techniques, such as expected future cash flows discounted to its value. Management judgment is involved to decide whether testing for recovery is needed and for estimating discounted cash flow. As of June 30, 2013 and 2012, no impairment of long-lived assets was identified.

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

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

Electric poles, towers and accessories	30 years
Electric transformers	30 years
Ducts and underground conductors	30 to 35 years
Overhead conductors and accessories	12 to 30 years
Substation equipment	12 to 30 years
Consumer meters	20 to 30 years
Buildings and improvements	50 years
Public lighting equipment	25 years
Transportation equipment	8 years
Communication equipment	8 to 25 years
Office furniture and equipment	5 to 20 years

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

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.

Purchase of Energy and Transmission Charge

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

In addition the Company pays a regulated rate to Empresa de Transmision Electrica, S. A. ("ETESA"), a company fully-owned by the Panamanian State, for connecting to and for use of the transmission system. ETESA is responsible for expanding and upgrading the interconnecting transmission system to meet the requirements of the demand growth and system stability. The current transmission rate is due to remain in force until June 30, 2013; thereafter the rate will be reviewed by ETESA and the ASEP for the next four-year period.

Income Tax

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

Deferred income taxes are accounted for under the asset-liability method as provided by ASC 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Income Statement in the period in which the change is enacted. A valuation allowance is recorded to reduce the value of deferred tax assets, when it is not probable that fiscal benefits cannot be completely realized.

Elektra Noreste, S.A.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Customer Deposits

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

The ASEP issued resolution AN 411-Elec (Nov. 16, 2006) amended by Resolution AN 3473-Elec (May 7, 2010) which provide that in those cases where the customer has established a good payment record, defined as no more than three late payments in a twelve month period, the deposit shall be returned to the customer. The Company classifies deposits that do not meet the condition of good payment record as non-current liabilities.

Contingencies

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

Seniority Premium and Severance Fund

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

Law N° 44 dated August 12, 1995 introduced reforms to the Panamanian Labor Code by requiring all employers to make a cash contribution to a severance fund that would cover the payment of a seniority premium to the employee and severance in case of unjustified dismissal or resignation. The Company keeps a trust fund through an authorized private entity, Progreso, S. A., which acts as trustee to secure the severance fund liability. This trust fund is reported on the Balance Sheets under "Severance fund".

Related Parties

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

Elektra Noreste, S.A.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

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

Regulated Activity

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

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

Regulatory assets and liabilities reflected in the Company's balance sheets are related to the following:

	2013	2012
Regulatory liability (Note 6)	US\$ 1,253,753	US\$ (1,865,247)
Deferred income tax asset (Note 4)	<u>(376,126)</u>	<u>559,574</u>
	<u>US\$ 877,627</u>	<u>US\$ (1,305,673)</u>

In the event that a portion of the Company's operations is no longer subject to the provisions of ASC 980, the Company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if there is any damage to other assets, including the property, plant, and equipment and, and if impaired, write down the assets to their fair value.

Earnings Recognition

Energy Sales

The Company recognizes its earnings for energy sales when service is delivered to and consumed by customers. The Company invoices customers based on meter readings that are performed on a systematic basis throughout the month. The applicable rates used to invoice customers include energy cost and distribution components.

Elektra Noreste, S.A.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

The energy cost component works as a pass-through for the energy purchased and transmission charges while the distribution components is set by the ASEP to allow distributors to recover costs related to maintenance, administration, marketing, depreciation, standard energy losses and also to obtain a fair return on their investment. The energy cost component is adjusted every six months to reflect fluctuations in energy costs and the distribution components are adjusted based on the consumer price index.

The Company recognizes as revenue the sale of energy that have not yet been invoiced, but that has already been consumed by customers. This revenue is recorded as unbilled revenue within the trade receivables on the balance sheet and is calculated based on actual average daily energy consumption and applicable rates to the customers of the Company.

Other Revenues

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

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates and assumptions used are based upon management's evaluation of relevant facts and judgments. Actual results could differ from those estimates. The most significant estimates include but are not limited to, the estimated useful life for depreciation and amortization, allowances for uncollectible accounts receivable, estimates of future cash flows associated with asset deterioration, contingency losses, collection or reimbursement of the fuel component adjustment account and estimated unbilled revenue.

Intangible Net

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

Elektra Noreste, S.A.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Concentration in Credit Risk

The Company is solely dedicated to the distribution and marketing of electric energy to customers located in its concession area. The Company does not believe that significant risk of loss from a concentration of credit risk exists given the large number of customers that comprise its customer base and their geographical dispersion. In addition, the Company believes that its potential credit risk is adequately covered by the allowance for uncollectible accounts.

Environmental Matters

The Company is subject to a broad range of environmental, health, and safety laws and regulations. In July 1998, the Panamanian Government enacted an environmental legislation creating an agency for the protection of the environment (Autoridad Nacional del Ambiente (“ANAM”) in Spanish) and imposing new environmental standards which have an effect in the Company’s operations. Failure to comply with the laws, rules and regulations, could account for the Company on having to make additional investments or may adversely affect the Company’s financial results. Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on current law. Established accruals are adjusted periodically as a result of new assessments and remediation efforts undertaken or as additional technical and legal information becomes available. As of June 30, 2013 and 2012, the Company has determined that there are no breaches of rules and regulations that obliged it to establish a provision for damages or environmental remediation and since the company provides only for energy distribution services, it considers that in case of requiring to establish a liability for asset retirement obligations with risks to the environment this would be immaterial.

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

Currency

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

New Standards

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

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

In October 2012, the FASB issued Accounting Statement Update 2012-04 (ASU 2012-04) “Technical Corrections and Improvements”. This update clarifies the Codification or correct unintended application of guidance or make minor improvements to the Codification that are not expected to have significant effect on current accounting practice or create a significant administrative cost to most entities. In addition, the amendments will make the Codification easier to understand and the fair value measurement guidance easier to apply by eliminating inconsistencies and providing needed clarifications. These amendments are presented in two sections: Technical Corrections and Improvements (Section A) and Conforming Amendments Related to Fair Value Measurement (Section B). The Amendments in Section A have been categorized in the following manner: 1) Source literature amendments arose because of differences between source literature and the Codification; 2) Guidance clarification and reference corrections, which provide clarification through updating wording, correcting references, or a combination of both; and 3) Relocated guidance, principally move guidance from its current location in the Codification to a more appropriate location. The amendments in Section B are intended to conform terminology and clarify certain guidance in various Topics of the Codification to fully reflect the fair value measurement and disclosure requirements of Topic 820. This update is effective for public entities for fiscal periods beginning after December 15, 2012 and for nonpublic entities for fiscal periods beginning after December 15, 2013. The Company does not expect the adoption of this update to have an impact on the financial statements.

In February 2013, the FASB issued Accounting Statement Update 2013-02 (ASU 2013-02) “Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income” . This update requires an entity to present, either on the face of the statement of operations or in the notes to financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to crossreference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This update is effective, prospectively, for public companies for fiscal periods that begin after December 15, 2012 and for nonpublic companies, for fiscal periods that begin after December 15, 2013. The early adoption is permitted. The adoption of this update has not impact on the financial statements of the company.

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Notes to financial statements**For the six months ended June 30, 2013 and 2012****3. Accounts Receivable – Trade and other, net**

At June 30, 2013 and December 31, 2012, the accounts receivable – trade and other, net are as follows:

	2013	2012
Customers	US\$ 62,520,595	US\$ 55,921,774
Government and municipal entities	<u>14,279,335</u>	<u>10,327,149</u>
	76,799,930	66,248,923
Unbilled revenue	9,576,650	10,227,530
Government subsidy (Note 6)	-	24,904,524
Other	<u>2,419,809</u>	<u>2,283,281</u>
	88,796,389	103,664,258
Allowance for doubtful accounts	<u>(10,266,672)</u>	<u>(9,515,951)</u>
	<u>US\$ 78,529,717</u>	<u>US\$94,148,307</u>

For 2012, the balance of the Government subsidy included US\$24,904,524 in subsidies awarded by the Panamanian Government to customers through the FET and Fondo de Compensación Energética (FACE). The FET is given to customers consuming less than 450 KWh per month (At December 31, 2012 was given until 500KWh) and is also granted when the Government agrees to subsidize the tariff adjustments. At June 2013, the Company have an account payable to the Government of US\$ 7,724,865 for the difference between the subsidy and what was really applied to customers.

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

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

3. Accounts Receivable – Trade and other, net (Continued)

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

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

Through Resolution No.5917 of January 28, 2013, the ASEP notified the Company that the amount of US\$19,829,086 was to be transferred to offset the income that haven't being recognized through the rate update according to the actual billing in the amount of US\$27,151,488 for the second semester of 2012, net of US\$7,322,402 in credits balances for Variation in Fuel surcharge (CVC) for the period from July to December 2012.

As of June 30, 2013, the Company did not charge against the allowance for doubtful accounts; during 2012, the amount of US\$500,000 was charged and recovered balances of accounts previously written-off for the amounts of US\$168,243 (2012:US\$330,203).

4. Income Tax

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

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Notes to financial statements**For the six months ended June 30, 2013 and 2012****4. Income Tax (Continued)**

The difference between the provision for income tax for the period ended June 30, 2013 and 2012, and the income tax calculated using the enacted statutory corporate tax of 30% for income before the income tax reported on the financial statements is due to the following:

	June 30, 2013	June 30, 2012
Income Tax:		
Calculated at expected statutory rate	US\$ 7,556,174	US\$ 8,097,566
Decrease in income tax due to non-taxable income	(30,881)	(107,334)
Increase in income tax due to non-deductible expenses	<u>29,540</u>	<u>17,494</u>
 Total Income Tax	 <u>US\$ 7,554,833</u>	 <u>US\$ 8,007,726</u>

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

	June 30, 2013	December 31, 2012
Current deferred income tax assets:		
Provision for doubtful accounts	US\$ 843,416	US\$ 649,149
Regulatory liability (Note 2)	-	559,574
Tariff adjust FACE y CVC	2,486,826	-
Others	<u>338,756</u>	<u>310,697</u>
 Total deferred income tax assets	 3,668,998	 1,519,420
 Current deferred income tax liability		
Regulatory asset (Note 2)	<u>(376,126)</u>	<u>-</u>
 Current deferred income tax assets, net	 <u>US\$ 3,292,872</u>	 <u>US\$ 1,519,420</u>

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Notes to financial statements**For the six months ended June 30, 2013 and 2012****4. Income Tax (Continued)**

	June 30, 2013	December 31, 2012
Non-current deferred income tax asset:		
Provision for contingencies	US\$ 23,582	US\$ 23,582
Non-current deferred income tax liabilities:		
Severance fund	(216,872)	(189,649)
Depreciation expense	<u>(2,314,595)</u>	<u>(2,382,964)</u>
Non-current deferred income tax liabilities, net	<u>US\$ (2,507,885)</u>	<u>US\$ (2,549,031)</u>

In accordance with tax regulations, the last three years of companies' income tax returns in Panama are subject to audit. Years starting as of 2010 are subject to examination by tax authorities, although no audit is currently scheduled or in process, prior years are considered closed years.

Pursuant to ASC 740, "Income Taxes", the Company is required to recognize the financial statement effects of tax positions if they meet a "more likely than not" threshold. In assessing items related to this limitation, the Company must assess whether each tax position can be sustained solely on its technical merits assuming examination by a taxing authority. The interpretation requires the Company to establish liabilities to reflect the portion of those positions that cannot be concluded as "more likely than not" of being realized upon ultimate settlement. These are referred to as liabilities for unrecognized tax benefits under ASC 740. By adopting this interpretation, the Company identified and evaluated any potential uncertain tax positions and concluded that there are no uncertain tax positions requiring recognition in the financial statements. Management expects tax authorities to allow these positions when and if examined and has a high level of confidence in the technical merits of these positions. Accordingly, Management expects the full amount of the tax position to be finally stated in the financial statements.

Investment Tax Credit

During 2001, the Company received an investment tax credit for US\$13,673,745, which was granted by the Panamanian Government under an incentive law that promoted investments in infrastructure to expand the energy distribution network. The tax credit can be used as a reduction of up to 25% of the income tax incurred in any given year, until 100% of the fiscal credit can be consumed in the coming years. The Company made use of this fiscal credit in the course of the years up until December 31, 2008, in which it used the total amount of this credit.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

4. Income Tax (Continued)

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

5. Debt

Short-Term Debt

The Company did not have short-term debt neither in June 30, 2013 nor December 31, 2012. The revolving credit lines available with The Bank of Nova Scotia, Banco General, S.A., HSBC Bank (Panama), S.A., Banco Panama, S.A. and Banco Nacional de Panama totalize US\$135,500,000 as of June 30, 2013 and December 31, 2012, with annual interest rates ranging between one (1) to three (3) or six (6) months LIBOR , plus a margin between 1.25% to 2.5%. These unsecured credit facilities are available for a maximum period of one year. Floor rates for these revolving agreements are between 2% to 4%. The Company uses these credit facilities as needed for working capital or any other needs. These credit lines have an order of priority “pari passu” as any other “senior” unsecured and unsubordinated obligations that the Company has. The credit lines include among other provisions a coverage debt indicator of the debt, which establishes a debt limit that does not exceed 3.25 of its EBITDA.

Long-Term Debt

At June 30, 2013 and December 31, 2012, the balance of the long- term notes is as follows:

	June 30, 2013	December 31, 2012
Long-Term Notes Payable:		
Senior Notes	US\$ 100,000,000	US\$ 100,000,000
Corporate Bonds	20,000,000	20,000,000
Senior Notes (Bridge Notes at December 31, 2012)	80,000,000	80,000,000
Minus: Debt issuance costs	(3,366,217)	(3,132,221)
Senior Notes discount	(578,004)	(603,816)
Total Long-term debt	<u>US\$ 196,055,779</u>	<u>US\$ 196,263,963</u>

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

5. Debt (Continued)

Senior Notes

The Company has notes payable under a senior debt agreement (“Senior Notes”) totaling US\$100,000,000 which have a balance of US\$99,421,996 net of US\$578,004 of unamortized discount as of June 30, 2013. The notes have a fixed interest rate of 7.6%, payable semi-annually, and maturing in July 12, 2021. Principal payment is due upon maturity. The notes maintain a not guaranteed and are not subordinated. The Company may redeem the Senior Notes, in part or in whole, at any time prior to their maturity if they meet certain conditions including, payment of a premium. Obligations include among other provisions a debt coverage ratio indicator, which sets a debt limit not to exceed 3.25 times its EBITDA.

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

Corporate Bonds

On October 20, 2008, in a public offering, the Company offered corporate “Bonds” with a face value of US\$40,000,000 unsecured and unsubordinated with a maturity date of October 20, 2018. On such date, US\$20,000,000 of these corporate bonds were signed and issued with Banco General, S.A. The bonds have a ranking of “pari passu” with other unsecured and not guaranteed obligations of the Company. The bonds will bear interest at LIBOR plus 2.375% per annum, payable on a quarterly basis. Principal is due upon maturity. The proceeds from the offering of the bonds were used to fund current and future capital expenditures and for general corporate purposes. The bonds are subject to additional terms and conditions which are customary for this transaction. The Company may redeem the bonds, in whole or in part, at the third anniversary from the date of the offer.

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

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

5. Debt (Continued)

Senior Notes (Bridge Notes at December 31, 2012)

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

With reference to the Note Purchasing Agreement and the Indenture Agreement, the Company signed on December 13, 2012 a Bridge Loan Agreement where the Company agrees to issue unencumbered promissory notes ("Bridge Notes,") payable to each of the purchasers for a total of US\$80,000,000. In turn, each of the purchasers agrees to transfer funds corresponding to each of the Bridge Notes to the Company. The Agreement provides that the Bridge Notes will bear annual interest of 4.73% cumulative from the date the funds are transferred, with a maturity date of February 1, 2013 or on the date of termination of the Loan Agreement, whichever occurs first. The Loan Agreement terminated by issuing the Senior Notes. The Loan Agreement required the Company to maintain and ensure it has indebtedness capacity in funds available in its credit lines facilities along with its with cash equivalents for an amount in excess of the amount to be paid for the termination of this agreement.

The Notes Purchasing Agreement was signed on January 17, 2013, thus making the delivery of the Senior Notes to the buyers, being on that same date is confirmed by the Company and the buyers that the conditions of the Note Purchase Agreement has been met and the Company is released of payment obligations under the Bridge Notes and the Financing Agreement. The payment price signed under the issuance of Corporate Notes or Senior Notes should be satisfied with the cancellation of the Bridge Notes and the payment obligations set in the Financing Agreement without any additional payment by the buyers to the Company.

During the time the Indenture Agreement remains outstanding, the Company shall comply with the terms of the agreement, some of which are indicated below:

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

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

5. Debt (Continued)

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

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

As of June 30, 2013, the Company amortized debt issuance costs in the amount of US\$127,682 (December 31, 2012: US\$180,653). The issuance costs are being amortized using the method of effective interest applied at the period of the debt.

6. Purchase of Energy and Transmission Charges, Net

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Purchase of energy	\$ 109,446,971	\$ 104,159,136	\$ 205,709,716	\$ 203,357,992
Transmission charges	4,266,571	2,733,178	8,700,374	5,958,794
Regulatory asset (liability)	<u>(3,114,000)</u>	<u>8,486,000</u>	<u>(3,119,000)</u>	<u>25,050,000</u>
Total purchase of energy and transmission charges, net	<u>\$ 110,599,542</u>	<u>\$ 115,378,314</u>	<u>\$ 211,291,090</u>	<u>\$ 234,366,786</u>

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

6. Purchase of Energy and Transmission Charges, Net (Continued)

Regulatory asset (liability)

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

For the last several years, the regulatory asset (liability) has not been fully passed through to distribution company customers in form of a tariff increase. The amount that has not been invoiced to costumers has been subsidized by the Panamanian Government. As of June 30, 2013, the accounts receivable from the government subsidy was for US\$7,724,865 (December 31, 2012: accounts receivable of US\$24,904,524) (See Note 3).

As of June 30, 2013, the Company has registered in books regulatory assets in the amount of US\$1,253,753 (December 31, 2012: regulatory liability of US\$1,865,247), and are presented as a "Regulatory asset (liability)" in the balance sheet, as a consequence of the variance resulting between the cost of the energy considered in the actual generation and transmission revenues and the actual cost of energy purchased. The regulatory liability includes an account payable of US\$337,757 accumulated during the second semester of 2012 to be pay to customers in the tariff adjustment at second semester of 2013, and an account receivable of US\$1,591,510 accumulated during the first semester of 2013 to be pay to customers in the tariff adjustment of the second semester of 2013, and a payable of US\$1,097,501 accumulated during the first quarter of 2013 to be applied to customers in the tariff adjustment of the first semester of 2014.

7. Commitments and Contingencies

Commitments

In compliance with the Electricity Law of 1997, the Company enters into long-term power purchase agreements with generation companies that cover most of its regulated customers' contributions to the total peak customer demand of electricity and work towards limiting any associated energy costs. Historically, the Company annually contracts about 94% to 98% of its total energy requirements via purchase agreements on the contract market. For the period ended June 30, 2013 and December 31, 2012, the Company purchased approximately 96% and 97%, respectively, of the energy required through the purchase of energy on the contract market. These purchase agreements include both a fixed charge based on energy capacity requirements and a variable charge based on the energy consumed. These purchase contracts for purchase of energy and capacity qualify as accounting exceptions for derivative instruments that fall within the conditions for normal.

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

7. Commitments and Contingencies (Continued)

purchases and normal sales according to the prescriptions in ASC 815, "Derivatives and Hedges".

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

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

Year	Payment Obligations
2013	US\$ 48,127,508
2014	100,331,931
2015	99,954,590
2016	93,074,409
Thereafter	<u>1,655,916,502</u>
	<u>US\$ 1,997,404,940</u>

As of June 30, 2013 and 2012, the Company made expenditure for the amount of US\$48,127,508 and US\$44,159,623, respectively, in long-term unconditional contracts, recorded under purchase of energy and transmission charges, net on the Income Statement.

Every four years the Company and the workers' Union, negotiate a Collective Agreement. The last agreement expire in 2012. In January 4, 2013, the negotiations with the workers' union finished and a new agreement was signed. These agreements do not maintain or consider additional material obligations besides those established in the labor law.

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Notes to financial statements**For the six months ended June 30, 2013 and 2012**

7. Commitments and Contingencies (Continued)**Operating Leases**

The Company has entered into a seven-year non-cancelable operative lease agreement, whose term began in May 2007, for the use of offices and operational facilities. As of June 30, 2013, the minimum rental payments required under this operating lease with initial or remaining non-cancellable lease terms in excess of one year are:

Years	Payment Obligations
2013	US\$ 263,874
2014	<u>177,641</u>
	<u>US\$ 441,515</u>

As of June 30, 2013 and 2012, total operating leasing expenses was US\$952,643 and US\$919,222, respectively.

Guarantees

The Company has provided limited guarantees to generation companies in order to provide credit assurance and performance of obligations under the power purchase agreements. These guarantees are not recognized on the balance sheets, because the Company believes that it will be able to perform under these contracts and that is not probable that payments will be required. The guaranteed amounts are limited to a month's estimate of energy capacity and associated energy consumption and are established for a twelve-month period with automatic renewals as long as the power purchase agreement is in place. The aggregate guarantee amount for the performance obligation is US\$42,625,268. The Company has also issued a guarantee in favor of the ASEP in the amount of US\$8,000,000 in compliance with Clause 53 of the Concession Contract.

The Company has several standby letters of credit for US\$3,887,597 in favor of ETESA, guaranteeing the payment of transmission costs and energy purchases in the energy exchange market.

Concession Contract

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

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Notes to financial statements

For the six months ended June 30, 2013 and 2012

7. Commitments and Contingencies (Continued)

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

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

Contingencies

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

As of June 30, 2013 and December 31, 2012, the Company has recorded the sum of US\$78,610 to cover potential losses that may occur as a result of third party claims. These reserves are reported in the Balance Sheets in "Provision for contingencies". Following is the most representative case:

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Notes to financial statements

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8. Commitments and Contingencies (Continued)

Litigations

The ASEP through Resolution AN No.3473-Elec of May 7, 2010, modified Resolution JD-5863, dated February 17, 2006, which contains Title IV of the Distribution and Commercialization Regimen, which contains a provision on its article number 22, entitling the ASEP to review at the end of each rate period the maximum allowable income "IMP" approved versus actual revenue received to determine whether the variations are within a reasonable range. The variation in sales, in the amount and/or type of customer and/or the cost of supplies or labor will not be taken into consideration, in a way different to the one reflected by the IPC of the Comptroller General of the Republic. Although the procedure for calculating and adjusting any unreasonable excess has yet to be defined and established by the ASEP, the position of the Company's management is that as of June 30, 2013 there is no contingency loss to be recorded in the Financial Statements as a consequence of this particular provision under the above mentioned resolution. This conclusion is based on: i) the final outcome still in progress related to the appeal of this article filed in the Supreme Court by another power distribution company; ii) in case the regulatory entity approves a resolution to adjust any unreasonable excess, the Company has the right to file an appeal at the Supreme Court which is an independent body and the final instance that will decide on this particular matter; and iii) there is no written nor approved procedure to calculate and adjust what could be deemed by the regulatory body as an unreasonable excess, ergo, any calculation would be highly subjective. An unfavorable resolution to that effect could have a significant negative impact on the financial statements of the Company. In spite of the above, the Resolution AN-3574-Elec dated June 25, 2010, which approved the "Maximum Allowed Income" for the July 2010 - June 2014 rate period has no adjustment related to the previous rate period (July 2006 to June 2010).

8. Fair Value of Financial Instruments

The fair values of financial instruments as of June 30, 2013 and December 31, 2012 are based on the information available at the date of the balance sheets. The Company is not aware of any factors that may significantly affect the estimated fair value of the most common financial assets and liabilities such as cash, trade receivables, severance fund, accounts payable, short- term and long-term debt; and customer deposits. The Company uses the following methods and assumptions for estimating the fair value of financial instruments:

Trade Receivable, Accounts Payable, Short-Term Debt and Customer Deposits

The carrying amount approximates fair value due to the short maturity of these instruments.

Elektra Noreste, S.A.

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

Notes to financial statements

For the six months ended June 30, 2013 and 2012

8. Fair Value of Financial Instruments

Long-Term Debt

The fair value of long-term debt with variable interest rate for the issuance of the corporate bonds for US\$20,000,000 and for long-term debt with a fixed rate for the issuance of “Senior” bonds for US\$100,000,000 and US\$80,000,000 have been determined using the market value or a methodology based on discounted cash flows with available market information. These estimates are subjective in nature and involve uncertainties; as a consequence, the actual results can be different that the estimates.

The estimated fair values of financial instruments are as follows:

	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Value	Fair Value
Long-term debt	<u>US\$ 196,055,779</u>	<u>B/. 225,472,356</u>	<u>196,263,963.00</u>	<u>US\$ 222,867,014</u>

9. Subsequent Events

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