



Elektra Noreste, S.A.

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

Financial Statements for the years ended
December 31, 2010 and 2009, and Independent
Auditors' Report Dated March 25, 2011

Elektra Noreste, S.A.

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

**Independent Auditors' Report and
Financial Statements 2010 and 2009**

Table of Contents	Page
Independent Auditors' Report	1
Balance Sheets	2
Statements of Operations	3
Statements of Stockholders' Equity	4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 28

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Elektra Noreste, S.A. (the "Company") as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity, and cash flows for the years then ended (expressed in United States dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements have been translated into English for the convenience of readers in the United States of America.



March 25, 2011
Panama City, Republic of Panama

Elektra Noreste, S.A.

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

Balance Sheets**As of December 31, 2010 and 2009**

(Expressed in United States dollars)

Assets	Notes	2010	2009	Liabilities and Stockholders' Equity	Notes	2010	2009
Current assets:				Current liabilities:			
Cash and cash equivalents		<u>21,984,499</u>	<u>5,912,571</u>	Accounts payable:			
Accounts receivable:				Generation and transmission	7, 12	56,137,544	60,249,862
Trade and others, net	3, 12	58,168,380	62,296,540	Suppliers	7	11,049,741	8,943,649
Fuel component adjustment	2, 14	<u>-</u>	<u>15,785,351</u>	Construction contracts		8,500,845	8,655,855
Accounts receivable, net		<u>58,168,380</u>	<u>78,081,891</u>	Fuel component adjustment	2, 14	1,903,649	-
Inventory		5,630,085	4,256,241	Others	12	-	449,783
Prepaid income tax		-	2,820,998	Income tax payable		10,221,045	-
Deferred income tax	8	1,586,742	-	Deferred income tax	8	-	3,711,413
Other current assets		<u>522,034</u>	<u>1,154,185</u>	Customers' deposits	9	825,323	1,445,323
Total current assets		<u>87,891,740</u>	<u>92,225,886</u>	Withholding taxes		<u>334,172</u>	<u>370,286</u>
Property, plant, and equipment, net	4	258,026,592	248,111,663	Total accounts payable		<u>88,972,319</u>	<u>83,826,171</u>
Other assets:				Interest payable on debt		3,653,246	3,653,029
Debt issuance costs	5	2,443,999	2,599,019	Accrued expenses		<u>1,789,901</u>	<u>1,732,002</u>
Severance fund		1,525,092	1,383,421	Total current liabilities		<u>94,415,466</u>	<u>89,211,202</u>
Security deposits on facilities		104,820	81,939	Long-term debt	10, 17	119,302,154	119,260,205
Intangible, net	6	5,743,114	6,184,281	Customers' deposits and other liabilities:			
Tools and spare parts		<u>739,608</u>	<u>759,936</u>	Deferred income tax	8	2,755,575	2,730,085
Total other assets		<u>10,556,633</u>	<u>11,008,596</u>	Customers' deposits	9	5,867,000	5,557,514
				Reserves for contingencies	16	173,110	210,304
				Other accrued liabilities		<u>2,360,903</u>	<u>2,488,307</u>
				Total liabilities		<u>224,874,208</u>	<u>219,457,617</u>
				Commitments and contingencies	16		
				Stockholders' equity:			
				Common stock authorized, issued and outstanding: 50,000,000			
				shares without par value; 160,031 held in treasury	11	106,098,875	106,098,875
				Retained earnings		<u>25,501,882</u>	<u>25,789,653</u>
				Total stockholders' equity		<u>131,600,757</u>	<u>131,888,528</u>
Total assets		<u>356,474,965</u>	<u>351,346,145</u>	Total liabilities and stockholders' equity		<u>356,474,965</u>	<u>351,346,145</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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

Statements of Operations**For the years ended December 31, 2010 and 2009**

(Expressed in United States dollars)

	Notes	2010	2009
Revenues:			
Energy sales	12	443,903,930	389,177,811
Other revenues	13	<u>9,036,878</u>	<u>7,237,064</u>
Total revenues		452,940,808	396,414,875
Purchase of energy and transmission charges, net	12, 14	<u>359,211,739</u>	<u>308,972,678</u>
Gross distribution margin		<u>93,729,069</u>	<u>87,442,197</u>
Operating expenses:			
Labor and other personnel		8,625,323	8,829,960
Severance expenses		583,346	381,137
Provision for doubtful accounts, net of recoveries		1,004,485	2,504,437
Repair and maintenance		2,926,311	2,887,016
Professional services		12,496,355	10,640,719
Depreciation and amortization		14,789,187	14,520,999
Mangement fee	12	-	2,067,370
Administrative and other		9,254,094	8,318,027
Loss on disposal of fixed asset	4	<u>348,056</u>	<u>328,306</u>
Total operating expenses		<u>50,027,157</u>	<u>50,477,971</u>
Operating income		<u>43,701,912</u>	<u>36,964,226</u>
Other income (expenses):			
Other income		380,928	585,920
Interest income		1,089,288	1,348,015
Interest expense	15	<u>(8,731,186)</u>	<u>(8,979,219)</u>
Total other expenses		<u>(7,260,970)</u>	<u>(7,045,284)</u>
Income before income taxes		<u>36,440,942</u>	<u>29,918,942</u>
Income taxes:	8		
Current		16,212,674	6,201,235
Deferred (benefit) expense		<u>(5,272,665)</u>	<u>2,838,190</u>
Total income taxes		<u>10,940,009</u>	<u>9,039,425</u>
Net income		<u>25,500,933</u>	<u>20,879,517</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Statements of Stockholders' Equity**For the years ended December 31, 2010 and 2009**

(Expressed in United States dollars)

	Note	Common Stock	Treasury Stock	Retained Earnings	Total Equity
Balance as of January 1, 2009		106,642,962	(544,087)	17,554,672	123,653,547
Net income		-	-	20,879,517	20,879,517
Dividends paid	11	-	-	(12,260,000)	(12,260,000)
Accredited complementary dividend tax	11	-	-	490,400	490,400
Complementary dividend tax paid	11	<u>-</u>	<u>-</u>	<u>(874,936)</u>	<u>(874,936)</u>
Balance as of December 31, 2009		106,642,962	(544,087)	25,789,653	131,888,528
Net income		-	-	25,500,933	25,500,933
Dividends paid	11	-	-	(26,174,189)	(26,174,189)
Accredited complementary dividend tax	11	-	-	924,308	924,308
Complementary dividend tax paid	11	<u>-</u>	<u>-</u>	<u>(538,823)</u>	<u>(538,823)</u>
Balance as of December 31, 2010		<u>106,642,962</u>	<u>(544,087)</u>	<u>25,501,882</u>	<u>131,600,757</u>

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Statements of Cash Flows**For the years ended December 31, 2010 and 2009**

(Expressed in United States dollars)

	Note	2010	2009
Cash flows from operating activities:			
Net income		25,500,933	20,879,517
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		14,789,187	14,520,999
Loss on disposal of fixed asset		348,056	328,306
Provision for doubtful accounts, net of recoveries		1,004,485	2,504,437
Discount amortization of senior notes		41,949	38,897
Amortization of debt issuance costs		155,020	140,949
Provision for severance payments net of contribution to severance fund		64,002	(55,983)
Deferred income tax		(5,272,665)	2,838,190
Fuel component adjustment		17,689,000	(9,978,000)
Change in operating assets and liabilities:			
Accounts receivable		3,123,675	2,546,902
Inventory		(1,373,844)	1,297,250
Other assets		684,909	(346,914)
Accounts payable trade and other liabilities		(3,140,023)	11,666,967
Income tax		13,042,043	(6,736,880)
Seniority premium		(185,089)	(109,105)
Net cash provided by operating activities		<u>66,471,638</u>	<u>39,535,532</u>
Cash flows from investing activities:			
Capital expenditures		(24,848,931)	(21,507,200)
Proceeds from sales of fixed assets		<u>237,925</u>	<u>154,921</u>
Net cash used in investing activities		<u>(24,611,006)</u>	<u>(21,352,279)</u>

(Continued)

Elektra Noreste, S.A.

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Statements of Cash Flows**For the years ended December 31, 2010 and 2009**

(Expressed in United States dollars)

	Note	2010	2009
Cash flows from financing activities:			
Repayment of short-term debt		-	(25,000,000)
Accredited complementary dividend tax	11	924,308	490,400
Complementary dividend tax paid	11	(538,823)	(874,936)
Dividends paid	11	<u>(26,174,189)</u>	<u>(12,260,000)</u>
Net cash used in financing activities		<u>(25,788,704)</u>	<u>(37,644,536)</u>
Cash and cash equivalents:			
Net increase (decrease) for the year		16,071,928	(19,461,283)
Beginning of year		<u>5,912,571</u>	<u>25,373,854</u>
End of year		<u>21,984,499</u>	<u>5,912,571</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of amounts capitalized		<u>8,353,394</u>	<u>8,752,868</u>
Income taxes		<u>3,170,632</u>	<u>12,801,625</u>

(Concluded)

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Notes to financial statements

For the years ended December 31, 2010 and 2009

(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 created 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 former employees of IRHE own 48.25% and 0.43%, respectively. The remaining amount of shares is held as treasury stock.

The activities of the Company include the purchase of energy in blocks and its transportation through the distribution network to customers. The Company performs voltage transformation, delivers the power to end consumers, and performs meter reading, invoicing 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 National 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 16, 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 Kuna Yala and Darien. In regards to “large customers” defined by Law 6 of February 3, 1997, who have a maximum demand over 100 KW per site 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 generally accepted accounting principles in the United States of America (“US GAAP”).

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

Records are maintained in balboas, the currency of the country in which the Company is incorporated and operates. The translation of balboas amounts into U.S. dollar amounts are included solely for the convenience of readers in the United States of America, and as at December 31, 2010 and 2009, and for the years then ended, were at par value and freely exchangeable with the U.S. dollar. The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal tender.

2. Significant Accounting Policies

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

2.1 Cash and Cash Equivalents

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

Elektra Noreste, S.A.

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Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

2.2 Accounts Receivable

Accounts receivable are recorded at the invoiced amount and bear interest on past due amounts. The interest is recognized until the customer account is closed or terminated, which occurs approximately 60 days after electric power service has been suspended.

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.

2.3 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 semi-annual tariff charge 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 charge 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 charge adjustment to be recovered from customers.

2.4 Inventory

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

2.5 Property, Plant, and Equipment

Upon the Company's creation, 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 that do not extend the useful life by improving the conditions of the asset to the condition it had when originally purchased are also expensed. The Company also capitalizes interest during construction in accordance with the Accounting Standard Codification ("ASC") 835 "Interest", issued by the Financial Accounting Standard Board ("FASB").

Elektra Noreste, S.A.

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Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

Long-lived assets are reviewed for impairment whenever events or changes occur if circumstances indicate the carrying amount of an asset may not be recoverable through operations, in accordance with ASC 360, Property, Plant and Equipment (ASC 360-10-35) "Impairment or Disposal of Long-Lived Assets". If the carrying 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's judgment is involved in both deciding whether testing for recoverability is necessary and for estimating undiscounted cash flows. As at December 31, 2010 and 2009, 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 in the Statements of Operations.

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:

	Estimated Useful Life (in years)
Poles, towers and accessories	30
Electric transformers	30
Underground conductors and ducts	30
Overhead conductors and accessories	25
Substation equipment	30
Consumer meters	20 to 30
Buildings and improvements	35
Public lighting equipment	25
Transportation equipment	8
Communications equipment	8 to 25
Office furniture and equipment	5 to 20

2.6 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.

2.7 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 Operations. 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).

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Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

The Company also pays a regulated tariff to Empresa de Transmisión Eléctrica, S. A. (“ETESA”), a company fully-owned by the Panamanian Government for connecting to and for use of the transmission system. ETESA is responsible for expanding and upgrading the interconnecting transmission system to meet the requirements of demand growth and system stability. The current transmission tariff is due to remain in force until June 30, 2013; thereafter the tariff would be revised by ETESA and the ASEP for a four-year period.

2.8 Income Taxes

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

Deferred income taxes are accounted for under the asset-liability method as prescribed by ASC 740, “Income Taxes”. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Statement of Operations in the period that includes the enactment date.

2.9 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 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.

2.10 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. For further discussion of contingencies, see Note 16.

2.11 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 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.

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., which acts as trustee to secure the severance fund liability. This trust fund is reported in the Balance Sheets under “Severance fund”.

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

2.12 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.

2.13 Utility Regulation

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

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

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

	<u>2010</u>	<u>2009</u>	<u>Note</u>
Fuel component adjustment - (liability) asset	(1,903,649)	15,785,351	(See fuel component adjustment in Note 14)
Deferred income tax asset (liability)	<u>571,095</u>	<u>(4,735,605)</u>	<u>See Note 8</u>
	<u>(1,332,554)</u>	<u>11,049,746</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 any impairment to other assets, including Property, plant and equipment exists and, if impaired, write down the assets to their fair value.

Elektra Noreste, S.A.

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Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

2.14 Revenue Recognition

Energy Sales

The Company recognizes its revenues for energy sales when service is delivered to and consumed by customers. The Company invoices customers based on meter readings that are performed on a systematic basis throughout the month. The applicable rates used to invoice customers include energy cost and distribution components. The energy cost component 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 operating cost, maintenance, administration and commercial expenses, depreciation, standard energy losses and also to obtain a fair return on their investment. The energy cost component is adjusted every six months to reflect fluctuations in energy costs and the distribution components are adjusted based on the consumer price index.

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

Other Revenues

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

2.15 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 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 the relevant facts and judgments. Actual results could differ from those estimates. The most significant 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.

2.16 Intangible, net

The Company's intangible assets consist of software licenses which are recorded at historical cost. The Company amortizes its intangible assets using the straight-line method until 15-years estimated useful lives. Intangible assets are reviewed annually to determine if any adverse conditions exist or a change in circumstances has occurred that would required a change in the remaining useful lives.

2.17 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 accounts.

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

2.18 Environmental Matters

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

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.

2.19 Application of Recent Accounting Pronouncements

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

In December 2009, the FASB issued the Accounting Standards Update (“ASU”) No. 2009-17, “Consolidation (ASC 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” effective January 1, 2010. ASU No. 2009-17 eliminates the existing quantitative analysis requirement and added new qualitative factors to determine whether consolidation is required. The new qualitative factors are applied on a quarterly basis to interests in variable interest entities. Under the new guidance, the holder of the interest with the power to direct the most significant activities of the entity and the right to receive benefits or absorb losses significant to the entity would consolidate. The new guidance retained the existing provision that allows entities created before December 31, 2003 to be scoped out from a consolidation assessment if exhaustive efforts are taken and there is insufficient information to determine the primary beneficiary. The adoption of ASU No. 2009-17 had no impact on the Company’s financial statements.

In January 2010, the FASB issued the Accounting Standards Update (“ASU”) No. 2010-06 “Fair Value Measurements and Disclosures (ASC 820): Improving Disclosures about Fair Value Measurements. This Update requires disclosures regarding: (1) significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and (2) fair value measurement inputs and valuation techniques. Furthermore, ASU No. 2010-06 requires presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3), beginning in the first quarter of 2011. Others provisions are effective for interim and annual fiscal periods beginning after December 15, 2010. The adoption of ASU No. 2010-06 had no impact on the Company’s financial statements.

In February 2010, the FASB issued the Accounting Standards Update (“ASU”) No. 2010-09 “Subsequent Events (ASC 855): Amendments to Certain Recognition and Disclosure Requirements” ASU No. 2010-09 does not significantly change the prior accounting for subsequent events but eliminates the requirement to disclose the date through which a SEC filer has evaluated subsequent events and the basis for that date. The adoption of ASU No. 2010-09 had no impact on the Company’s financial statements.

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

2.20 Reclassifications

Certain amounts in the financial statements for the year ended December 31, 2009 have been reclassified in order to conform with the presentation of the financial statements for the year ended December 31, 2010, as follows:

Licenses and software with a net value of US\$6,184,281 as of December 31, 2009 were previously included as property, plant and equipment. In accordance with ASC 350-30 "Intangibles - Goodwill and Other", must be presented as a separate line item on the Balance Sheet. The Company made the reclassification to the balance corresponding to year 2009 in order to meet the presentation accordingly.

3. Accounts Receivable - Trade and other, net

At December 31, 2010 and 2009, accounts receivable - trade and other net, are as follows:

	2010	2009
Customers	43,484,564	47,661,966
Government and municipal entities	<u>7,662,017</u>	<u>6,704,285</u>
	51,146,581	54,366,251
Unbilled revenue	7,802,620	7,452,881
Government subsidy (see Note 14)	3,794,450	6,860,043
Other	<u>3,833,619</u>	<u>2,591,758</u>
	66,577,270	71,270,933
Allowance for doubtful accounts	<u>(8,408,890)</u>	<u>(8,974,393)</u>
Total	<u><u>58,168,380</u></u>	<u><u>62,296,540</u></u>

During the years ended December 31, 2010 and 2009, the Company charged off the amounts of US\$1,761,816 and US\$2,961,581 against the allowance for doubtful accounts and recovered from previous write-off balances the amounts of US\$191,828 and US\$221,131, respectively.

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

4. Property, Plant, and Equipment, net

At December 31, 2010 and 2009, property, plant and equipment net are as follows:

	2010	2009
Poles, towers and accessories	91,123,485	89,132,123
Electric transformers	48,533,841	46,040,066
Underground conductors and ducts	64,484,325	60,993,103
Consumer services	30,561,233	29,564,555
Overhead conductors and accessories	27,574,909	26,434,935
Substation equipment	54,522,367	52,044,876
Consumer meters	29,987,409	28,723,751
Buildings and improvements	14,160,326	13,731,347
Public lighting equipment	13,111,960	12,806,034
Transportation and communication equipment	6,879,590	6,527,664
Office furniture and equipment	9,709,108	10,483,606
Construction in progress	12,283,938	8,995,607
Other	4,456,925	3,756,767
	<u>407,389,416</u>	<u>389,234,434</u>
Less: Accumulated depreciation and amortization	<u>(154,666,312)</u>	<u>(144,664,985)</u>
	252,723,104	244,569,449
Land	<u>5,303,488</u>	<u>3,542,214</u>
Total	<u>258,026,592</u>	<u>248,111,663</u>

At December 31, 2010 and 2009, the Company incurred a loss of US\$348,056 and US\$328,306, respectively, on the disposal of fixed assets, which is reflected in the Company's Statements of Operations in the loss on disposal of fixed asset account. During the years ended December 31, 2010 and 2009, the Company capitalized interest costs for US\$90,017 and US\$39,670, respectively.

5. Debt Issuance Costs

The debt issuance costs for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Beginning balance	2,599,019	2,739,968
Amortization	<u>(155,020)</u>	<u>(140,949)</u>
Ending balance	<u>2,443,999</u>	<u>2,599,019</u>

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

The debt issuance costs incurred corresponds to Senior Notes and Corporate Bonds described in Note 10. The debt issuance costs are being amortized under the effective interest method over the repayment period of the debt.

6. Intangible, net

The Company only has intangible assets with finite lives, the amortization over their estimated useful lives are as follows:

	2010	2009
Beginning balance	9,436,347	9,265,454
Amortization	<u>(3,693,233)</u>	<u>(3,081,173)</u>
Ending balance	<u>5,743,114</u>	<u>6,184,281</u>

For the years ended December 31, 2010 and 2009, amortization expense for all amortizable intangible assets was US\$612,060 and US\$583,470, respectively.

The following is the Company's estimated amortization expense related to the intangibles assets for 2011 through 2015 for these assets included in the Balance Sheet at December 31, 2010:

	2011	2012	2013	2014	2015
Estimated amortization expense	<u>629,375</u>	<u>629,075</u>	<u>629,075</u>	<u>628,947</u>	<u>628,947</u>

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

7. Accounts Payable

Generation and Transmission - At December 31, 2010 and 2009, accounts payable to generation and transmission companies are as follows:

	2010	2009
Non-Related Parties		
Inversiones y Desarrollo Balboa, S.A.	4,578,003	4,704,271
Panam Generating Ltd.	9,556,994	12,668,596
Pedregal Power Company	3,796,145	7,174,798
Térmica del Caribe, S.A.	4,938,375	5,181,209
Térmica del Noreste, S.A.	24,537	2,226,256
Generadora del Atlántico, S.A.	4,046,130	4,725,159
Others	1,817,916	1,280,553
	<u>28,758,100</u>	<u>37,960,842</u>
Related Parties		
AES Panamá, S.A.	3,247,370	4,810,406
Autoridad del Canal de Panamá	3,994,396	3,977,623
Empresa de Distribución Eléctrica Metro Oeste, S.A.	51,460	72,329
Empresa de Distribución Eléctrica Chiriquí, S.A.	119	878
Empresa de Generación Eléctrica Bahía Las Minas Corp.	12,034,527	1,740,453
ENEL Fortuna, S.A.	6,665,222	10,479,685
Empresa de Transmisión Eléctrica, S.A.	1,386,350	1,207,646
	<u>27,379,444</u>	<u>22,289,020</u>
Total	<u>56,137,544</u>	<u>60,249,862</u>

Suppliers - At December 31, 2010 and 2009, accounts payable to suppliers are as follows:

	2010	2009
Construction contractors	2,974,536	2,620,770
Maintenance and repairs	1,316,530	1,294,722
Materials and inventory	3,117,130	2,596,211
Outsourcing and services	1,731,899	1,247,979
Others	1,909,646	1,183,967
	<u>11,049,741</u>	<u>8,943,649</u>
Total	<u>11,049,741</u>	<u>8,943,649</u>

8. Income Taxes

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 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.

Elektra Noreste, S.A.

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

Notes to financial statements**For the years ended December 31, 2010 and 2009**

(Expressed in United States dollars)

The difference between the provision for income tax for the years ended December 31, 2010 and 2009, and the income tax calculated using the enacted statutory corporate tax rate of 30% for income before income tax reported in the financial statements is attributable to the following:

	2010	2009
Income tax:		
Computed at expected statutory rate	10,932,283	8,975,683
Decrease in income tax due to non-taxable income	(29,046)	(49,421)
Increase in income tax due to non-deductible expenses	<u>36,772</u>	<u>113,163</u>
Total income tax	<u>10,940,009</u>	<u>9,039,425</u>

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

	2010	2009
Current deferred income tax assets:		
Provision for doubtful accounts	758,740	759,948
Fuel component adjustment	571,095	-
Other	<u>256,907</u>	<u>264,244</u>
Total deferred income tax assets	<u>1,586,742</u>	<u>1,024,192</u>
Current deferred income tax liability - fuel component adjustment	<u>-</u>	<u>(4,735,605)</u>
Current deferred income tax assets (liability), net	<u>1,586,742</u>	<u>(3,711,413)</u>

	2010	2009
Non-current deferred income tax asset-		
Provision for contingencies	51,933	63,091
Non-current deferred income tax liabilities:		
Severance fund	(151,070)	-
Depreciation expense	<u>(2,656,438)</u>	<u>(2,793,176)</u>
Non-current deferred income tax liabilities, net	<u>(2,755,575)</u>	<u>(2,730,085)</u>

In accordance with tax regulations, the income tax returns of companies in Panama are open for examination by the tax authorities for the last three years. Years starting with 2007 are subject to examination by tax authorities, although no examination is currently scheduled or in process. Those prior to 2007 are considered closed years. Companies are also subject to examination by the Panamanian tax authorities regarding compliance with stamp tax regulations.

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

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 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 realized upon ultimate settlement. These are referred to as liabilities for unrecognized tax benefits under FIN No. 48. 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.

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. The Company had been using the tax credit during the course of these years. All the tax credit was fully utilized.

Due to the benefit received, the Company is not allowed to deduct for tax purposes, the depreciation on US\$13,673,745 of investments in infrastructure, as result of this, the tax effect in future years is US\$4,102,123.

9. Customers' Deposits

At December 31, 2010, the Company estimated that the amount of deposits to be returned to customers during fiscal year 2011 will be US\$825,323 (includes accrued interest of US\$87,772).

The activity in the customer deposits accounts for the years 2010 and 2009 is as follows:

	2010	2009
Beginning balance	7,002,837	9,879,726
Deposits received from customers	1,639,804	1,585,867
Interest accrued	177,085	247,922
Deposits returned to customers	(1,935,169)	(4,422,041)
Interest paid	<u>(192,234)</u>	<u>(288,637)</u>
Ending balance	6,692,323	7,002,837
Current portion	<u>(825,323)</u>	<u>(1,445,323)</u>
Long-term portion	<u>5,867,000</u>	<u>5,557,514</u>

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

10. Debt

The Company has available revolving credit lines with The Bank of Nova Scotia, Banco General, S. A., HSBC Bank (Panama), S.A., Banco Panamá, S.A. and Banco Nacional de Panamá with an aggregated credit line of US\$102,500,000 in 2010 and US\$100,000,000 in 2009, and annual interest rates ranging between 1 to 6 months LIBOR plus 2.00% and 3.75%. These unsecured credit facilities are available with a maximum term of up to one year. Floor rates margins between 3.50% and 3.85% exist for all the revolving agreements. The Company uses these facilities as needed for working capital and other needs. The Company had no outstanding debt under these credit facilities neither as at December 31, 2010 nor December 31, 2009.

At December 31, 2010 and 2009, the balance of the long-term notes is as follows:

	2010	2009
Long -Term Notes		
Senior Notes	100,000,000	100,000,000
Corporate Bonds	20,000,000	20,000,000
Less:		
Senior notes discount	<u>(697,846)</u>	<u>(739,795)</u>
Total Long-term debt	<u>119,302,154</u>	<u>119,260,205</u>

The Company has notes payable under a senior debt agreement (“Senior Notes”) totaling US\$100,000,000 which is recorded at US\$99,302,154 net of US\$697,846 unamortized discount at December 31, 2010. The notes have a fixed interest rate of 7.6%, payable semi-annually, and mature in 2021. Principal payment is due upon maturity. The notes maintain a senior credit position and are unsecured. The Company may redeem the Senior Notes, in whole or in part, at any time prior to their maturity thereof upon satisfaction of certain conditions including, payment of a specified make-whole premium. Notes’ covenants include debt coverage ratios and other provisions.

On October 20, 2008, in a public offering, the Company submitted a US\$40,000,000 aggregate principal amount of unsecured and unsubordinated corporate bonds (“Bonds”) due October 20, 2018. On such date, US\$20,000,000 of this corporate bond offering was subscribed and issued with Banco General, S.A. The bonds rank pari passu among equal in right of payment with all other unsecured and unsubordinated obligations. The bonds will bear interest at LIBOR plus 2.375% per annum, payable on a quarterly basis. Principal is due upon maturity. The proceeds from the offering of the bonds will be used to fund current and future capital expenditures and for general corporate purposes. The bonds are subject to additional terms and conditions which are customary for this transaction. Bond’s covenants include debt coverage ratios and other provisions. The Company may redeem the Bonds, in whole or in part, at the third anniversary from the date of the offer.

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

11. Dividends and Treasury Stocks

During years 2010 and 2009 the Company paid dividends for the amount of US\$26,174,189 and US\$12,260,000 respectively.

Dividend Tax

Dividends are paid to shareholders net of withholding taxes of ten percent (10%). If dividends are not distributed or total dividends distributed are less than forty percent (40%) of net taxable income, a dividend tax of four percent (4%) of net income should be prepaid until such time when a dividend is declared on such earnings. The four percent rate is known as "Complementary Tax" and considered an advance on dividends tax. The Complementary tax paid is recorded and presented as a reduction to stockholders' equity or as an increase when accredited upon dividend tax declaration. During the years ended December 31, 2010 and 2009, the Company paid complementary tax in the amounts of US\$538,823 and US\$874,936, and accredited the amounts of US\$924,308 and US\$490,400 corresponding to advances on dividends tax, respectively.

Treasury Stocks

In 1998, as a consequence of the privatization process of the energy industry, former IRHE's employees, the state owned entity, had the option to purchase a portion of the common stock of the Company. In the event that employees wish to sell their previously acquired stock, the Company is no longer required to repurchase the stock.

12. Related Party Transactions

In the normal course of business, the Company purchases electricity from generation and other distribution companies, sells energy to governmental institutions and makes payments to the transmission company. These transactions are made under the terms and conditions of the power purchase agreements and the transmission tariff, see Notes 2 and 16. A summary of the balances and transactions derived from the purchase and sale of energy with related parties is as follows:

	2010	2009
Balance		
Accounts receivable (trade) - Government	7,662,017	6,704,285
Accounts receivable (others) - Panama Distribution Group	-	398
Accounts payable (generation and transmission)	27,379,444	22,289,020
Transactions		
Revenues	51,372,466	45,298,097
Purchases of energy	150,514,628	132,208,041
Transmission costs	9,157,278	10,100,110

Management Consulting Agreement - The Company entered into a Management Consulting Agreement in 1998 with CPI, Ltd. ("the Operator"), the successor to Constellation Power, Inc.

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

Under this agreement, CPI, Ltd.'s employees, agents, consultants, contractors or affiliates shall perform the following services:

- Review the business plan of the Company and make the necessary recommendations to the Board of Directors;
- Provide on-going advice concerning day-to-day operations of the Company, including accounting, invoicing, quality control, environmental matters, and safety;
- Prepare the annual business plan of the Company in cooperation with senior management;
- Investigate and make recommendations to the Board, from time to time, regarding business development opportunities and corporate strategic planning, including potential expansion; and;
- Review all contracts with third parties exceeding an annual value of US\$100,000.

The Company paid the Operator an annual fee as compensation for the performance of its obligations under this agreement in an amount equal to four percent (4%) of earnings before interest, taxes, depreciation and amortization. CPI, Ltd. and the Company decided to terminate the agreement as of November 30, 2009.

At December 31, 2010 and 2009, the Company had the following balances and transactions with CPI, Ltd. and AEI Services LLC:

	2010	2009
Accounts payable - CPI Ltd. (others)	-	361,616
Accounts payable - AEI Services LLC. (others)	-	88,103
Total	<u>-</u>	<u>449,719</u>
Management fees	<u>-</u>	<u>2,067,370</u>

13. Other Revenues

Other revenues are composed of the following:

	2010	2009
Connection/reconnection charges	862,980	1,063,629
Pole rentals	3,432,177	3,308,220
Wheeling charges	4,249,106	2,357,120
Other income	492,615	508,095
Total	<u>9,036,878</u>	<u>7,237,064</u>

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

14. Purchase of Energy and Transmission Charges, Net

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

	2010	2009
Purchase of energy	332,095,316	308,612,567
Transmission charges	9,427,423	10,338,111
Fuel component adjustment	<u>17,689,000</u>	<u>(9,978,000)</u>
Total purchase of energy and transmission charges, net	<u>359,211,739</u>	<u>308,972,678</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 Operations. 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 invoiced to customers has been subsidized by the Panamanian Government. As of December 31, 2010 and 2009, the Government Subsidy-accounts receivable amounted to US\$3,794,450 and US\$6,860,043, respectively, see Note 3.

At December 31, 2010, a net payable balance of US\$1,903,649 (a receivable of US\$15,785,351 in 2009) was determined as a consequence of the variance resulting from the actual generation and transmission revenues and the actual cost of energy purchased. The balance is comprised of payables of US\$7,105,000, accumulated during the first semester of 2010 to be reimbursed to customers in the first semester of 2011 and receivables of US\$5,201,351 accumulated during the second semester of 2010 to be recovered from customers during the year 2011.

15. Interest Expense

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

	2010	2009
Interest costs capitalized	90,017	39,670
Interest costs charged to expenses	<u>8,731,186</u>	<u>8,979,219</u>
Total interest costs incurred	<u>8,821,203</u>	<u>9,018,889</u>

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

16. Commitments and Contingencies

Commitments

As of December 31, 2010, 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>
Sistema de Generación, S.A.	as request	July 1, 2010	June 30, 2020
AES Panamá - Estí	48.72	November 20, 2003	November 20, 2013
Inversiones y Desarrollos Balboa	24.9	August 4, 2008	December 31, 2011
ENEL Fortuna	80	January 1, 2009	December 31, 2012
Termica del Caribe	2.85	March 1, 2009	June 30, 2014
Generadora del Atlántico	30	June 1, 2009	June 30, 2014
Energía y Servicios de Panamá, S.A.	0.96	July 1, 2009	June 30, 2014
ENEL Fortuna	49.3	January 1, 2010	December 31, 2011
Pedregal Power Co.	12.7	January 1, 2010	December 31, 2011
Autoridad del Canal de Panamá	15.8; 7.5	January 1, 2010	December 31, 2011
Bahía Las Minas	108	January 1, 2010	December 31, 2018
Panam Generating	20	January 1, 2010	December 31, 2019
Paso Ancho Hidro-Power	4	October 5, 2010	October 4, 2018
Autoridad del Canal de Panamá	27	January 1, 2011	December 31, 2011
Autoridad del Canal de Panamá	16.2	January 1, 2011	December 31, 2011
Semper Group	22.5	January 1, 2011	December 31, 2018
Panam Generating	60	January 1, 2011	December 31, 2020
AES Panamá	39	January 1, 2012	December 31, 2012
AES Panamá	23	January 1, 2013	December 31, 2021
Energía y Servicios de Panamá, S.A.	1.49; 1.15; 9.31	January 1, 2012	December 31, 2014
ENEL Fortuna	1.2; 0.92; 7.5	January 1, 2012	December 31, 2014
Generadora del Atlántico	0.5; 0.38; 3.12	January 1, 2012	December 31, 2014
Autoridad del Canal de Panamá	3.6; 2.77; 22.5	January 1, 2012	December 31, 2014
ENEL Fortuna	120	January 1, 2013	December 31, 2018
ENEL Fortuna	8.05	January 1, 2013	December 31, 2022
AES Panamá	9.43	January 1, 2013	December 31, 2022
Hidro Caisan	5.09	January 1, 2013	December 31, 2022
Electron Investment	10.35	January 1, 2013	December 31, 2022
Alternegy	18.4	January 1, 2013	December 31, 2022
Bontex	4.6	January 1, 2013	December 31, 2022
Bahía Las Minas	108	January 1, 2019	December 31, 2023

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

In accordance with the 1997 Electricity Law, 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 contracts annually for approximately 98% to 79% of its total energy requirements via purchase agreements on the contract market. For the years ended December 31, 2010 and 2009, the Company purchased approximately 98% for both years, 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 fuel cost. Based on changes in the Electricity Law, as of August 2009 the Transmission Company (ETESA) is the responsible in preparing the bid processes for energy purchase on behalf the distribution companies. Offers are received, evaluated and awarded by ETESA and then assigned to each distribution company based on their requirements. Distribution companies are obligated to signed contracts based on said awarded offers. The aggregate amount of future payments required under such unconditional purchase obligations, is as follows:

Year	Obligation
2011	92,042,791
2012	77,596,195
2013	91,693,375
2014	90,080,093
Thereafter	<u>597,954,178</u>
Total	<u><u>949,366,632</u></u>

During the years ended, December 31, 2010 and 2009, the Company has expensed the amount of US\$86,850,787 and US\$63,872,987 respectively on such unconditional purchase obligations, recorded under Purchase of energy and transmission charges, net on the Statements of Operations.

The Company and the workers' union every four years negotiate a Labor Collective Agreement. The current Agreement is effective as of February 2008. These agreements do not maintain or consider 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 December 31, 2010 the future minimum rental payments required under this operating lease with initial or remaining non-cancelable lease terms in excess of one year are:

Year ending December 31:

2011	497,453
2012	512,376
2013	527,748
2014	<u>177,641</u>
Total minimum payments required	<u><u>1,715,218</u></u>

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

The total rent expense for the years ended December 31, 2010 and 2009 for all operating leases was US\$1,707,014 and US\$1,608,818, respectively.

Guarantees

The Company has provided limited guarantees to generation 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 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\$33,566,722. 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\$2,214,192 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.

The Company's concession contract has a 15-year term and expires in October 2013. One year prior to the expiration of the concession period, the ASEP will hold a competitive tender for the sale of 51% ownership share currently held by Panama Distribution Group, S.A., 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.

Contingencies

As result of issues generated from the ordinary course of business, the Company is or can be involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies. The ultimate outcome of these proceedings is not expected to have a material impact on the Company's financial position, result of operations or liquidity. At December 31, 2010 and 2009, the Company had total reserves for loss contingencies in the amount of US\$173,110 and US\$210,304 respectively; these reserves are reported in the Balance Sheets in "Reserves for contingencies". Following is the most representative matter:

Elektra Noreste, S.A.

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

Notes to financial statements

For the years ended December 31, 2010 and 2009

(Expressed in United States dollars)

Litigations

The ASEP through Resolution JD-5863, dated February 17, 2006 approved 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's Maximum Allowed Income at the end of the July 2006 - June 2010 tariff period will cause an adjustment by reducing the approved Maximum Allowed Income to be applied in the July 2010 - June 2014 period. However and even though the procedure to calculate and adjust an unreasonable excess has yet to be defined by the regulatory body, the Company's management position is that as of December 31, 2010 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) a final outcome still in progress at the Supreme Court 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 in the Supreme Court which is the independent body and 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 will be highly subjective. In spite of the above, the Resolution AN-3574-Elec dated June 25, 2010 that approved the Maximum Allowed Income for the July 2010 - June 2014 tariff period has no adjustment related to the previous, July 2006 - June 2010, tariff period.

17. Fair Value of Financial Instruments

The estimated fair values of financial instruments as of December 31, 2010 and 2009 are based on the information available at the date of the balance sheets. The Company has no knowledge of any factors that may significantly affect the estimated fair values of the most common financial assets and liabilities such as cash, trade receivables, severance funds, accounts payable, short-term and long-term debt; and customer deposits. The Company uses the following methods and assumptions for estimating fair value of financial instruments:

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

The carrying amount approximates fair value because of the short maturity of those instruments.

Long-Term Debt

The fair value of long-term debt with variable interest rates approximates their carrying value. For fixed rate long-term debt, fair value has been determined using discounted cash flow analyses based on available market information. These estimates are subjective in nature and involve uncertainties. Therefore, actual results may differ from these estimates.

The estimated fair values of financial instruments are as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	<u>119,302,154</u>	<u>138,910,000.</u>	<u>119,260,205</u>	<u>130,476,606</u>

Elektra Noreste, S.A.

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Notes to financial statements**For the years ended December 31, 2010 and 2009**

(Expressed in United States dollars)

18. Subsequent Events

For the year ended December 31, 2010, the Company has disclosed subsequent events through March 25, 2011, the date the financial statements were available to be issued.

19. Approval of Financial Statements

The financial statements were approved by the Board of Directors and authorized for issuance on March 25, 2011.

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