Elektra Noreste, S. A.

Report and Financial Statements
June 30, 2006 and December 31, 2005

Management Report

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

The accompanying balance sheet of Elektra Noreste, S.A. as of June 30, 2006, and the related statement of income, stockholder's equity and cash flows for each of the six-months periods ended June 30, 2006 and June 30, 2005, have been prepared from the non-audited accounting information, consequently the reports could be subject to adjustments and/or reclassifications. All the information included in these interim financial statements is the representation of the Management of Elektra Noreste, S.A.

In our opinion, the mentioned financial statements, fairly present, in all their material aspects, the financial situation of Elektra Noreste, S.A. as of June 30, 2006, the results of its operations, the changes in the stockholder's equity and cash flows for the six-months periods ended June 30, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

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

August 24, 2006
Panama, Republic of Panama

Elektra Noreste, S.A.

Pages

Financial Statements:

Elektra Noreste, S. A.
Balance Sheets
June 30 2006 and December 31, 2005
(in US Dollars)

	June 30, 2006	December 31, 2005
Assets		
Property, plant, and equipment:		
Property, plant, and equipment, net of accumulated depreciation	US$ 217,135,364	US$ 213,997,316
Construction in progress	10,969,082	13,840,455
Total property, plant, and equipment	228,104,446	227,837,771
Current assets:		
Cash	1,428,340	1,576,063
Accounts receivable		
Trade, net (Note 3)	43,539,111	39,232,827
Fuel component adjustment (Note 2)	14,832,807	16,724,807
Generators	655,646	569,495
Others	1,330,706	1,601,477
Accounts receivable, net	60,358,270	58,128,606
Inventory	5,895,528	7,050,919
Prepaid expenses	786,903	131,029
Prepaid income tax (Nota 5)	-	1,468,470
Derivative Instrument (Note 6)	4,050,000	-
Advances to suppliers	351,038	398,614
Total current assets	72,870,079	68,753,701
Other assets:		
Investment Available for Sale Security (Note 4)	12,431,040	-
Debt issuance cost	1,451,896	1,597,611
Severance fund	969,725	911,843
Security deposits on facilities	58,282	58,138
Trust fund for long-term loan debt	2,500,000	2,500,000
Deferred income tax (Note 5)	1,314,166	2,069,550
Total other assets	18,725,109	7,137,142
Total assets	US$ 319,699,634	US$ 303,728,614

	June 30, 2006	December 31, 2005
Liabilities and Stockholders' Equity		
Stockholders' equity:		
Common stock authorized, issued and outstanding: 50,000,000 shares without par value; 160,031 held in treasury	US$ 106,098,875	US$ 106,098,875
Accumulated other comprehensive loss (Note 2)	2,472,428	(457,493)
Retained earnings	26,336,436	18,748,041
Total stockholders' equity	134,907,739	124,389,423
Current liabilities:		
Accounts payable:		
Generation and transmission	42,049,965	41,228,848
Suppliers	8,101,061	10,226,889
Construction contracts	6,461,056	6,674,630
Related company	504,000	512,700
Income tax payable (Note 5)	1,354,679	-
Deferred income tax (Note 5)	4,983,456	4,115,575
Customer deposits	2,569,428	2,665,177
Witholding taxes	183,534	257,885
Total accounts payable	66,207,179	65,681,704
Current portion of bank debt (Note 7)	17,250,000	10,000,000
Interest payable on debt	1,470,405	1,396,934
Dividends payable	6,396	6,531
Derivative Instrument (Note 6)	-	653,561
Accrued expenses	1,160,972	655,386
Total current liabilities	86,094,952	78,394,116
Long-term bank debt (Note 7)	87,500,000	90,000,000
Customer deposits and other liabilities:		
Customer deposits	9,131,777	8,923,025
Provision for seniority premium and severance payments	760,131	703,156
Accrued liabilities	1,305,035	1,318,894
Commitments and contingencies (Note 9)		
Total liabilities	184,791,895	179,339,191
Total liabilities and stockholders' equity	US$ 319,699,634	US$ 303,728,614

The accompanying notes are integral part of these financial statements

Elektra Noreste, S. A.
Statements of Income
For six months ended June 30, 2006 and 2005

	2006	2005
Revenues		
Net energy sales	US$158,794,414	US$ 122,416,785
Other income	3,948,754	4,467,451
Total revenues	162,743,168	126,884,236
Purchase of energy and transmission charges, net(Note 9)	125,293,690	87,881,549
Gross distribution margin	37,449,478	39,002,687
Operating Expenses		
Labor and other personnel	4,303,497	4,177,583
Severance expenses	203,671	31,223
Provision for doubtful accounts	1,097,095	1,001,644
Repair and maintenance	1,295,620	1,225,674
Professional services	4,285,784	4,107,688
Management fees	897,000	946,610
Depreciation and amortization	6,090,901	6,053,107
Administrative and other	3,681,420	4,163,387
Loss on sale and disposal of fixed, net	205,280	469,714
Total operating expenses	22,060,268	22,176,630
Operating income	15,389,210	16,826,057
Other Income (Expense)		
Interest income	125,245	88,757
Interest expense	(4,499,762)	(3,441,752)
Total other expense	(4,374,517)	(3,352,995)
Income before income taxes	11,014,693	13,473,062
Income taxes (Note 5)		
Current	3,916,564	1,944,614
Deferred expense (benefit)	(611,556)	2,232,059
Total income taxes	3,305,008	4,176,673
Net income	US$ 7,709,685	US$ 9,296,389

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

Elektra Noreste, S. A.
Statements of Stockholders' Equity
For six months ended June 30, 2006 and 2005

	Common Stocks	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balance as of December 31, 2005	US$106,642,962	US$(544,087)	US$18,748,041	US$(457,493)	US$124,389,423
Net income for six months ended June 30, 2006	-	-	7,709,685	-	7,709,685
Complementary dividend tax paid			(121,290)		(121,290)
Other comprehensive income, net of tax					
Unrealized gains on hedging instrument				3,292,493	3,292,493
Unrealized loss on debt security (net of tax US$155,388)	-	-	-	(362,572)	(362,572)
Balance as of June 30, 2006	US$106,642,962	US$ (544,087)	US$26,336,436	US$ 2,472,428	US$134,907,739
Balance as of December 31, 2004	US$106,642,962	US$(544,087)	US$4,011,196	US$ -	US$110,110,071
Net income for six months ended June 30, 2005			9,296,389		9,296,389
Dividend paid	-	-	(4,480,649)	-	(4,480,649)
Balance as of June 30, 2005	US$106,642,962	US$ (544,087)	US$8,826,936	US$ -	US$114,925,811

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

Elektra Noreste, S. A.
Statements of Cash Flows
For six months ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Net income	US$ 7,709,685	US$9,296,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,090,901	6,053,107
Loss on sale and disposal of fixed assets, net	205,280	469,714
Provision for doubtful accounts	1,097,095	1,001,644
Provision for severance payments net of contribution to severance fund	6,776	(34,917)
Deferred income tax	367,585	2,718,000
Fuel component adjustment	(11,057,000)	(7,291,601)
Changes in operating assets and liabilities:		
Accounts receivable	(5,178,985)	(2,393,415)
Prepaid expenses	(510,303)	(177,963)
Inventory	1,155,391	(542,932)
Advances to suppliers	47,576	(1,249,771)
Trade accounts payable and other liabilities	(914,572)	12,724,312
Accounts payable – related company	(8,700)	(514,000)
Income tax, net	2,823,151	(3,943,051)
Seniority premium payments	(47,457)	(132,996)
Net cash provided by operating activities	1,786,423	15,982,520
Cash flows from investing activities		
Acquisition of fixed assets	(6,979,293)	(8,133,138)
Proceeds from sales of fixed assets	416,437	36,054
Net cash used in investing activities	(6,562,856)	(8,097,084)
Cash flows from financing activities		
Repayment of long-term debt	(2,500,000)	(2,500,000)
Short-term debt, net	7,250,000	6,000,000
Complementary dividend tax paid	(121,290)	-
Dividends paid	-	(16,897,814)
Net cash used in financing activities	4,628,710	(13,397,814)
Net decrease in cash	(147,723)	(5,512,378)
Cash at beginning of the period	1,576,063	6,544,514
Cash at end of period	US$ 1,428,340	US$1,032,136

Continued…

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

Elektra Noreste, S. A.
Statements of Cash Flows - Continued
For six months ended June 30, 2006 and 2005

	2006	2005
Supplementary disclosures		
Cash payments for interest	US$ 4,221,347	US$3,137,229
Cash payments for income taxes	US$ 114,272	US$5,401,725
Non-cash Investing activities		
Conversion of Fuel component adjustment receivable to Investment Security	US$ 12,949,000	US$ -

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

1. Description of Business

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

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

According to the concession contract described in Note 7, the Company has exclusivity for the distribution and marketing of electric power to customers located in the geographical areas of Panama East, Colón, Panama Bay, and the Comarca of San Blas and Darien (indigenous reserve). In regard to "large customers," defined by Law 6, dated February 3, 1997, as customers with a maximum demand over 100 KW per site that have the option to purchase energy directly from other agents of the electricity market, the Company has exclusivity for only the distribution of electricity.

2. Summary of Accounting Policies

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

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

Utility Regulation

The Company is subject to regulation by the ANSP. 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 ANSP.

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

Regulatory assets and (liabilities) reflected in the Company's balance sheets at June 30, 2006 and December 31, 2005 relate to the following:

	June 30, 2006		December 31, 2005		Note
Fuel component adjustment	US$	14,832,807	US$	16,724,807	See "fuel component adjustment" herein
Deferred income tax		(4,449,842)		(5,017,442)	See Note 5
Total	US$	10,382,965	US$	11,707,365	

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

Revenue Recognition

Energy Sales

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

The energy cost component operates as a pass-through for the energy purchased and transmission charges while the distribution components in the tariff are set by the ANSP to allow distributors to recover the cost of operating, maintenance, administration and commercial expenses, depreciation, standard energy losses and also to obtain a fair return on their investment. The energy cost component has been adjusted every six months to reflect fluctuations in energy costs and the distribution components are adjusted based on the consumer price index, as of June 23, 2006 the ANSP has established under Resolution AN 098-Elec to apply this adjustment on a monthly basis until December 31, 2006.

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

Other Income

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

Fuel Component Adjustment

The regulated system under which the Company operates provides that any excess or deficiency between the estimated energy costs included in the tariff and the actual costs incurred by the Company be included as a compensation adjustment to be recovered from or refunded to customers in the next tariff revision. 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 revision to be applied to the customers. 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 revision to be recovered from customers.

Changes in the under/over collection of these energy costs are reflected under net energy purchased and transmission costs in the statements of income. The cumulative amount receivable is presented as a fuel component adjustment receivable on the balance sheet until these amounts are billed to customers. At June 30, 2006 and December 31, 2005, there was a receivable balance of US$14,832,807 and US$16,724,807, respectively, for this account resulting from a deficiency in energy costs that need to be charged to customers.

Based on Resolution JD-5930 from March 31, 2006 issued by the Regulator, the distribution companies were order not to include in the rate adjustment applied starting April 1, 2006 through December 31, 2006 the accrued amount of energy cost deficit as of March 31, 2006. This accumulated balance is being collected from the Panamanian Government as a subsidy to customers, authorized under Resolution JD-5806 and JD-5930.

Derivatives
The Company accounts for derivatives under SFAS No.133 "Accounting for Derivatives Instruments and Hedging Activities", which recognizes all derivatives as either assets or liabilities in the Balance Sheet and measures those instruments at fair value. Gains and losses on derivatives that qualify as cash flow hedges are recorded net of tax within other comprehensive income. The gains or losses within accumulated other comprehensive income related to cash flow hedges of debt instruments are reclassified into earnings during the period that interest expense on the debt is recognized.

Income Taxes
Income taxes are accounted for under the asset-liability method as prescribed by SFAS No.109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

Comprehensive Income
Comprehensive income (loss) is represented by the net income for the period plus the effect of the net unrealized gain (loss) on hedging instruments, net of tax.

Comprehensive income for six months ended June30, 2006 and 2005 is as follows:

		June 30, 2006		June 30, 2005
Net income for six months ended	US$	7,709,685	US$	9,296,389
Net unrealized gains on hedging instrument, net of taxes		3,292,493		
Net unrealized loss on debt security, net of taxes		(362,572)		
Comprehensive income for the period	US$	10,639,606	US$	9,296,389

Contingencies
In the normal course of business, the Company is subject to various regulatory actions, proceedings, and lawsuits related to tax or other legal matters. The Company establishes reserves for these potential contingencies when they are deemed probable and reasonably estimable. For further discussion of contingencies, see Note 9.

Application of Recent Accounting Pronouncements
In May 2005, the FASB issued SFAS No.154, "Accounting Changes and Error Corrections - a replacement of APB Opinion 20 and FASB Statement 3", or SFAS No.154. SFAS No.154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No.54 also requires that a change in depreciation, amortization or depletion method for long lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No.154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 14, 2005. The implementation of SFAS No.154 is not expected to have a material impact on the Company's operations.

In March 2005, the FASB issued Interpretation No.47, "Accounting for Conditional Asset Retirement Obligations." The Interpretation clarifies the accounting for a conditional asset retirement obligation as identified in SFAS No.143, "Accounting for Asset Retirement Obligations." Interpretation No. 47 is effective for the 2006 fiscal year. The Company believes there will be no material effect on the results of operations or the financial statements upon adoption of this Interpretation.

3. Accounts Receivable - Trade

At June 30, 2006 and December 31, 2005 accounts receivable – trade, are as follows:

	June 30, 2006	December 31, 2005
Customers	US$ 33,273,394	US$ 28,993,323
Government and municipal entities	8,684,500	5,668,078
	41,957,894	34,661,401
Unbilled revenue	6,169,975	6,624,154
Government subsidy receivable	1,475,645	2,914,640
	49,603,514	44,200,195
Allowance for doubtful accounts	(6,064,403)	(4,967,368)
	US$ 43,539,111	US$ 39,232,827

4. Investment Available for Sale Security

The Available for Sale Debt Security with a face value of US$12,949,000, correspond to a five year term Treasury Note issued by Panamanian Government and authorized by Executive Decree No. 22 on June 28, 2006 as a mean to partially compensate the Company for the fuel component adjustment receivable balance accumulated between April 1, 2005 and March 31, 2006 for a total of US$25,409,926, which the Panamanian Government has agreed to subsidized.

As of June 30, 2006, this security was accounted for as available-for-sale under SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities” and recorded at its fair value of US12,431,040 with unrealized losses included in Accumulated Other Comprehensive Income, net of tax for US$362,572. This investment is subject to impairment evaluation under SFAS No. 115, which require the Company to determine whether a decline in fair value of an investment below the amortize cost basis is other than temporary. If the Company determine that the decline in fair value is judged to be other than temporary, the cost basis of the investment must be written down to fair value as a new cost basis. As of June 30, 2006 the Company has considered this loss as temporary in nature and expects the investment to recover its value in the future, given the long-term nature of this investment and expected overall market conditions.

5. Income Tax

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

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

	June 30, 2006	December 31, 2005
Non-current deferred income tax assets:		
Investment tax credit	US$ 4,096,847	US$ 5,075,988
Investment available for sale security	155,388	-
Provision for contingencies	333,688	333,688
Total deferred income tax assets	4,585,923	5,409,676
Non-current deferred income tax liability – Depreciation expense applicable to future periods	3,271,757	3,340,126
Non-current deferred income tax assets, net	US$ 1,314,166	US$ 2,069,550

	June 30, 2006	December 31, 2005
Current deferred income tax assets:		
Provision for doubtful accounts	358,177	358,177
Treasury lock derivative	-	196,068
Other	323,209	347,622
Total deferred income tax assets	681,386	901,867
Current deferred income tax liabilities -		
Fuel component adjustment	US$ 4,449,842	US$ 5,017,442
Treasury lock derivative	1,215,000	-
Total deferred income tax liabilities	5,664,842	5,017,442
Current deferred income tax liabilities, net	US$ (4,983,456)	US$ (4,115,575)

The Company estimates that is more likely than not that there will be enough income tax payable in future years to allow for the use of the deductible temporary differences included in the balance sheet as of June 30, 2006.

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

6. Derivative Instrument

On December 22, 2005, the Company entered into a hedging arrangement exclusively as a tool to lock in an interest rate for an upcoming issuance of bonds in order to minimize the Company's interest rate risk. This treasury lock was entered into with Citibank N.A., New York, for a 120-day period. The instrument was negotiated for a notional amount of US$100,000,000, which was designated as a cash flow hedge of the forecasted interest payments on the expected debt offering. Given the use of cash flow hedge accounting, this transaction is reflected as of June 30, 2006 and December 31, 2005 within other comprehensive income as an after-tax gain (loss) in the amount of US$2,835,000 and US$(457,493), respectively. The forecasted issuance of long term, fixed rate debt was executed on June 30, 2006, therefore the Company decided to unwind this agreement on the same date. The reclassification of this unrealized gain of US$2,8350,000 (net of tax) from Accumulated other comprehensive income (loss) for this treasury lock agreement will occur as interest rate is accrued on the debt instrument over its 15 year life term.
The Company does not enter into derivative transactions for trading or speculative purposes.

7. Bank Debt

At June 30, 2006 and December, 31 2005, bank debt is as follows:

	June 30, 2006	December 31, 2005
Short-Term Facilities:		
Banco Bilbao Vizcaya Argentaria (Panamá),S.A.	US$ 3,250,000	US$ -
Citibank, N.A., Panama Branch	3,000,000	-
The Bank of Nova Scotia	6,000,000	5,000,000
Total short term facilities	12,250,000	5,000,000
Long-Term Bank Facilities:		
Syndicated long-term loan, with an annual eurodollar rate of 3 months + 3.50%, assigned as follows:		
Banco Continental de Panamá, S. A.	32,375,000	33,250,000
Primer Banco del Istmo, S. A.	32,375,000	33,250,000
Citibank, N.A., Panama Branch	18,500,000	19,000,000
Banco Bilbao Vizcaya Argentaria (Panamá), S. A.	9,250,000	9,500,000
Total long-term facilities	92,500,000	95,000,000
Total bank debt	104,750,000	100,000,000
Less current portion	17,250,000	10,000,000
Long-term bank debt	US$ 87,500,000	US$ 90,000,000

The Company has available short-term facilities with Bank of Nova Scotia, Banco Bilbao Vizcaya Argentaria (Panamá), S.A., Banco General, S. A., Citibank, N. A., Panama Branch. Total available short-term facilities of US$50,300,000 in June 30, 2006 and US$43,300,000 in December 31, 2005 had annual interest rates ranging between 6 months Libor + 1.20% and 1.50%.

8. Purchase of energy and Transmission chargers

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

	June 30, 2006	June 30, 2005
Purchase of energy	118,327,037	90,393,385
Transmission chargers	5,074,653	4,779,765
Fuel component adjustment	1,892,000	(7,291,601)
Total net purchase of energy and Transmission chargers	US$ 125,293,690	US$ 87,881,549

9. Commitments and Contingencies

At June 30, 2006, the Company had contingent liabilities from claims originating in the ordinary course of business. The ultimate outcome of these contingencies is not expected to have a material impact on the Company's financial condition or operating results. Following are the most representative matters:

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

The Company challenged the ANSP (previously Ente Regulador de los Servicios Públicos) on Resolution JD-2626 which orders the Company to reimburse power generating companies for public lighting charges. The Company based its argument on the fact that the Regulator had previously authorized the distribution company to include public lighting charges within the wheeling charges billed to the generating companies. When the generating companies challenged these charges, the Regulator changed its previous instructions to the Company and through several resolutions, ordered the Company to not only to stop charging for public lighting but to reimburse to the generators all of the previous charges applied and already collected. The Company appealed the decision, and on June 20, 2006 the Supreme Court resolved in favor of the Company invalidating the claims for approximately US$2,414,318 (including interests) and denying any reimbursement to generators.

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

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

As of June 30, 2006, the Company had energy and long-term firm capacity purchase contracts with the following generation companies:

Company	MW	Begin	End
Térmica del Noreste, S. A.		June 19, 2000	July 19, 2010
Bahía Las Minas	80	January 1, 2005	December 31, 2008
ESTI – AES	48.72	November 20, 2003	November 2013
AES Panamá	40	January 1, 2006	December 31, 2006
La Mina Hidro-Power	28	January 1, 2008	December 31, 2015
AES Panamá	40	January 1, 2006	December 31, 2006
AES Panamá	20	January 1, 2007	December 31, 2007
AES Panamá	20	January 1, 2006	December 31, 2006
AES Panamá	40	January 1, 2007	December 31, 2007
AES Panamá	60	January 1, 2008	December 31, 2008
Bontex	19.8	January 1, 2008	December 31, 2015
Paso Ancho Hidro-Power	4	January 1, 2008	December 31, 2015
Pedregal Power Co.	30	January 1, 2006	December 31, 2008
PanAm	60	January 1, 2006	December 31, 2008
Pedregal Power Co.	12; 5; 15	January 1, 2006	December 31, 2008
Fortuna	80	January 1, 2009	December 31, 2012
Fortuna	120	January 1, 2013	December 31, 2018

In accordance with the 1997 Electricity Law, the Company enters into long-term power purchase agreements with electricity generators that cover most of its regulated customers' contributions to the total peak customer demand of electricity and work towards limiting any associated energy costs. Historically, the Company contracts annually for approximately 79% to 85% of its total energy requirements via purchase agreements on the contract market. For six months ended June 30, 2006, the Company purchased approximately 91% of its total energy requirements via power purchase agreements on the contract market. These purchase agreements include both a fixed charge based on energy capacity requirements and a variable charge based on energy use.

The Company has several unconditional long-term contracts obligations related to the purchase of energy capacity. The aggregate amount of payments required under such obligations at June 30, 2006, is as follows:

Year	**Payment Obligation**
2006	US$ 41,088,691
2007	31,920,691
2008	37,339,891
2009	15,855,888
2010	15,855,888
Thereafter	123,812,340
Total	US$ 265,873,389

The Company has provided limited guarantees to generating companies in order to provide for credit assurance and performance obligations under the power purchase agreements. These guarantees are not recognized on the balance sheet, because the Company believes that it is able to perform under these contracts and that is not probable that payments will be required. The guaranteed amounts are limited to a month's estimate of energy capacity and associated energy consumption and are established for a twelve 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$16,975,065. The Company has also issued a guarantee in favor of the ANSP for US$8,000,000 in compliance with clause 53 of the Concession Contract.

As of June 30, 2006 and December 31, 2005, the Company has on-going construction contracts for improvements and developments of the distribution system. Future commitments on these contracts amount to US$288,210 and US$762,669, respectively.

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

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

Concession Contract

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

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

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 ANSP, 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 ANSP, which may not be transferred to the users through the tariff.