

Elektra Noreste, S. A.

**Report and Financial Statements
September 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 September 30, 2006, and the related statement of income, stockholder's equity and cash flows for each of the nine-months periods ended September 30, 2006 and September 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 September 30, 2006, the results of its operations, the changes in the stockholder's equity and cash flows for the nine-months periods ended September 30, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

Javier Pariente
Executive Vicepresident &
General Manager

Eric Morales
Chief Financial Officer

November 27, 2006
Panama, Republic of Panama

Elektra Noreste, S.A.

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Elektra Noreste, S.A.

Balance Sheets September 30 2006 and December 31, 2005 (in US Dollars)

	September 30, 2006	December 31, 2005		September 30, 2006	December 31, 2005
Assets			Liabilities and Stockholders' Equity		
Property, plant, and equipment:			Stockholders' equity:		
Property, plant, and equipment, net of accumulated depreciation	US\$ 220,860,222	US\$ 213,997,316	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
Construction in progress	8,598,542	13,840,455	Accumulated other comprehensive loss (Note 6)	2,787,750	(457,493)
Total property, plant, and equipment	<u>229,458,764</u>	<u>227,837,771</u>	Retained earnings	<u>29,217,830</u>	<u>18,748,041</u>
			Total stockholders' equity	<u>138,104,455</u>	<u>124,389,423</u>
Current assets:			Current liabilities:		
Cash	<u>29,515,212</u>	<u>1,576,063</u>	Accounts payable:		
Accounts receivable			Generation and transmission	40,355,193	41,228,848
Trade, net (Note 3)	44,705,706	39,232,827	Suppliers	9,194,231	10,226,889
Fuel component adjustment (Note 2)	1,492,357	16,724,807	Construction contracts	6,330,806	6,674,630
Generators	495,240	569,495	Advance on tariffs subsidy	1,057,108	-
Others	<u>1,805,471</u>	<u>1,601,477</u>	Related company	484,000	512,700
Accounts receivable, net	<u>48,498,774</u>	<u>58,128,606</u>	Income tax payable (Note 5)	4,406,538	-
Inventory	5,687,390	7,050,919	Deferred income tax (Note 5)	573,991	4,115,575
Prepaid expenses	407,709	131,029	Customer deposits	4,078,652	2,665,177
Prepaid income tax (Nota 5)	-	1,468,470	Withholding taxes	<u>378,547</u>	<u>257,885</u>
Advances to suppliers	<u>433,573</u>	<u>398,614</u>	Total accounts payable	<u>66,859,066</u>	<u>65,681,704</u>
Total current assets	<u>84,542,658</u>	<u>68,753,701</u>			
Other assets:			Current portion of bank debt (Note 7)	-	10,000,000
Debt issuance cost	2,099,519	1,597,611	Interest payable on debt	1,731,107	1,396,934
Severance fund	1,033,180	911,843	Dividends payable	6,396	6,531
Security deposits on facilities	64,415	58,138	Derivative Instrument (Note 6)	-	653,561
Trust fund for long-term loan debt	-	2,500,000	Accrued expenses	<u>1,410,866</u>	<u>655,386</u>
Deferred income tax (Note 5)	<u>-</u>	<u>2,069,550</u>	Total current liabilities	<u>70,007,435</u>	<u>78,394,116</u>
Total other assets	3,197,114	7,137,142	Long-term bank debt (Note 7)	99,143,899	90,000,000
Total assets	<u>US\$ 317,198,536</u>	<u>US\$ 303,728,614</u>	Customer deposits and other liabilities:		
			Deferred income tax (Note 5)	215,582	-
			Customer deposits	7,691,334	8,923,025
			Provision for seniority premium and severance payments	739,781	703,156
			Accrued liabilities	<u>1,296,050</u>	<u>1,318,894</u>
			Commitments and contingencies (Note 9)		
			Total liabilities	<u>179,094,081</u>	<u>179,339,191</u>
			Total liabilities and stockholders' equity	<u>US\$ 317,198,536</u>	<u>US\$ 303,728,614</u>

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

	2006	2005
Revenues		
Net energy sales	US\$ 251,519,778	US\$ 193,005,685
Other income	<u>5,846,413</u>	<u>6,983,295</u>
Total revenues	<u>257,366,191</u>	<u>199,988,980</u>
Purchase of energy and transmission charges, net (Notes 8 and 9)	<u>200,240,275</u>	<u>141,236,623</u>
Gross distribution margin	<u>57,125,916</u>	<u>58,752,357</u>
Operating Expenses		
Labor and other personnel	6,510,993	6,283,712
Severance expenses	219,743	125,999
Provision for doubtful accounts	1,722,441	853,241
Repair and maintenance	1,957,344	1,942,997
Professional services	6,606,122	6,290,037
Management fees	1,381,000	1,466,000
Depreciation and amortization	9,162,958	9,104,400
Administrative and other	5,406,648	5,787,858
Loss on sale and disposal of fixed, net	<u>183,426</u>	<u>682,261</u>
Total operating expenses	<u>33,150,675</u>	<u>32,536,505</u>
Operating income	<u>23,975,241</u>	<u>26,215,852</u>
Other Income (Expense)		
Interest income	276,705	133,930
Interest expense	(8,784,947)	(5,395,914)
Loss on sale of debt security	<u>(414,368)</u>	<u>-</u>
Total other expense	<u>(8,922,610)</u>	<u>(5,261,984)</u>
Income before income taxes	15,052,631	20,953,868
Income taxes (Note 5)		
Current	<u>4,515,788</u>	<u>6,515,268</u>
Net income	<u>US\$ 10,536,843</u>	<u>US\$ 14,438,600</u>

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

Elektra Noreste, S. A.
Statements of Stockholders' Equity
For nine months ended September 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 nine months ended September 30, 2006	-	-	10,536,843	-	10,536,843
Complementary dividend tax paid			(242,580)		(242,580)
Accredited complementary dividend tax			175,526		175,526
Other comprehensive income Net unrealized gains on hedging instrument (net of tax US\$1,390,818)	_____	_____	_____	3,245,243	3,245,243
Balance as of September 30, 2006	<u>US\$106,642,962</u>	<u>US\$ (544,087)</u>	<u>US\$29,217,830</u>	<u>US\$ 2,787,750</u>	<u>US\$138,104,455</u>
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 nine months ended September 30, 2005			14,438,600		14,438,600
Dividend paid	_____ -	_____ -	(4,480,649)	_____ -	(4,480,649)
Balance as of September 30, 2005	<u>US\$106,642,962</u>	<u>US\$ (544,087)</u>	<u>US\$13,969,147</u>	<u>US\$ -</u>	<u>US\$120,068,022</u>

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

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

	2006	2005
Cash flows from operating activities		
Net income	US\$ 10,536,843	US\$14,438,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,162,958	9,104,400
Loss on sale of available for sale security	414,368	-
Amortization of senior notes discount	7,899	-
Reclassified gain on derivative instrument	(67,500)	-
Amortization of deferred issue costs	1,616,748	181,586
Loss on sale and disposal of fixed assets, net	183,426	682,261
Provision for doubtful accounts	1,722,441	853,241
Provision for severance payments net of contribution to severance fund	(59,695)	39,936
Deferred income tax	(2,647,270)	4,044,276
Fuel component adjustment	2,283,450	(10,299,401)
Changes in operating assets and liabilities:		
Accounts receivable	(7,295,325)	(10,866,427)
Prepaid expenses	(282,956)	(119,263)
Inventory	1,363,529	844,495
Advances to suppliers	(34,959)	(44,522)
Advance on tariffs subsidy	1,057,108	-
Trade accounts payable and other liabilities	(881,019)	13,552,970
Accounts payable – related company	(28,700)	9,250
Income tax, net	5,875,010	(2,930,732)
Seniority premium payments	(54,751)	(147,498)
	<u>22,871,605</u>	<u>19,343,172</u>
Cash flows from investing activities		
Acquisition of fixed assets	(11,793,016)	(13,079,934)
Proceeds from sales of fixed assets	513,594	162,161
Proceeds from derivative instrument	4,050,000	-
Withdrawal from trust fund	2,500,000	-
Proceeds from sale of available-for-sale security	<u>12,534,632</u>	<u>-</u>
	<u>7,805,210</u>	<u>(12,917,773)</u>

Continued...

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

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

	2006	2005
Cash flows from financing activities		
Repayment of long-term debt	(95,000,000)	(3,750,000)
Short-term debt, net	(5,000,000)	8,000,000
Proceeds from long term senior note	99,136,000	-
Debt issuance costs	(2,118,657)	(10,026)
Complementary dividend tax paid	(242,580)	-
Accredited complementary dividend tax	175,526	-
Dividends paid	<u>-</u>	<u>(16,917,164)</u>
Net cash used in financing activities	<u>(3,049,711)</u>	<u>(12,677,190)</u>
Net increase (decrease) in cash	27,939,149	(6,251,791)
Cash at beginning of the period	<u>1,576,063</u>	<u>6,544,514</u>
Cash at end of period	<u>US\$ 29,515,212</u>	<u>US\$ 292,723</u>
Supplementary disclosures		
Cash payments for interest	<u>US\$ 6,903,052</u>	<u>US\$5,006,028</u>
Cash payments for income taxes	<u>US\$1,279,245</u>	<u>US\$5,401,725</u>

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

Elektra Noreste, S. A.
Notes to Financial Statements
September 30, 2006 and December 31, 2005

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 Hidráulicos y Electrificación (“IRHE”) in Spanish). The Company was incorporated by means of Public Deed No.143, dated January 19, 1998, and began operations in January 1998. The authorized capital stock of the Company consists of fifty million common shares without par value. At present, Panama Distribution Group, S. A (“PDG”) owns 51% of the authorized, issued and outstanding shares of common stock of the Company, while the Panamanian Government and employees own 48.26% and 0.42%, 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 (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 9, 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.

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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 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 September 30, 2006 and December 31, 2005 relate to the following:

	September 30, 2006	December 31, 2005	Note
Fuel component adjustment	US\$ 1,492,357	US\$ 16,724,807	See "fuel component adjustment" herein
Deferred income tax	(447,707)	(5,017,442)	See Note 5
Total	US\$ 1,044,650	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

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

The energy cost component operates as a pass-through for the energy purchased and transmission charges while the distribution components in the tariff are set by the ASEP to allow distributors to recover the cost of operating, maintenance, administration and commercial expenses, depreciation, standard energy losses and also to obtain a fair return on their investment. The energy cost component has been adjusted every six months to reflect fluctuations in energy costs and the distribution components are adjusted based on the

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consumer price index, as of June 23, 2006 the ASEP 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 September 30, 2006 and December 31, 2005, there was a receivable balance of US\$1,492,357 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 US\$25,132,807 as of March 31, 2006. This accumulated balance was collected from the Panamanian Government as a subsidy to customers, authorized under Executive Decree No. 22 of June 28, 2006 and ASEP Resolution AN No. 164-Elec of July 27, 2006.

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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 the nine months ended September 30, 2006 and 2005 is as follows:

	September 30, 2006		September 30, 2005	
Net income for nine months ended	US\$	10,536,843	US\$	14,438,600
Net unrealized gains on hedging instrument, net of taxes		3,245,243		-
Comprehensive income for the period	US\$	<u>13,782,086</u>	US\$	<u>14,438,600</u>

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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.154 also requires that a change in depreciation, amortization or depletion method for long lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS No.154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 14, 2005. The implementation of SFAS No.154 is not expected to have a material impact on the Company's operations.

In 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 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The interpretation requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. This interpretation is effective for the 2006 fiscal year. The Company believes there will be no material effect on the results of operations or the financial statements upon adoption of this Interpretation.

In June 2006, the FASB released FIN No.48, "Accounting for Uncertainty in Income Taxes" an Interpretation of FASB Statement No.109. FIN No.48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Under the interpretation, the financial statements will reflect expected future tax consequences of such positions presuming the tax authorities' full knowledge of the position and relevant facts. This interpretation is effective for annual periods beginning after December 15, 2006. Accordingly, the Company expects to adopt FIN No.48 on January 1, 2007. The Company is currently reviewing this interpretation to determine the effects on its financial statements.

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3. Accounts Receivable - Trade

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

	September 30, 2006	December 31, 2005
Customers	US\$ 35,348,306	US\$ 28,993,323
Government and municipal entities	<u>9,897,598</u>	<u>5,668,078</u>
	45,245,904	34,661,401
Unbilled revenue	6,149,551	6,624,154
Government subsidy receivable	<u>6,149,551</u>	<u>2,914,640</u>
	51,395,455	44,200,195
Allowance for doubtful accounts	<u>(6,689,749)</u>	<u>(4,967,368)</u>
	<u>US\$ 44,705,706</u>	<u>US\$ 39,232,827</u>

4. Investment Available for Sale on Debt 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\$25,132,807, which the Panamanian Government has agreed to subsidized. 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.

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

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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:

	September 30, 2006	December 31, 2005
Non-current deferred income tax assets:		
Investment tax credit	US\$ 2,688,302	US\$ 5,075,988
Provision for contingencies	<u>333,688</u>	<u>333,688</u>
Total deferred income tax assets	3,021,990	5,409,676
Non-current deferred income tax liability – Depreciation expense applicable to future periods	<u>3,237,572</u>	<u>3,340,126</u>
Non-current deferred income tax (liabilities) assets, net	<u>US\$ (215,582)</u>	<u>US\$ 2,069,550</u>
Current deferred income tax assets:		
Provision for doubtful accounts	698,285	358,177
Treasury lock derivative	-	196,068
Other	<u>370,181</u>	<u>347,622</u>
Total deferred income tax assets	<u>1,068,466</u>	<u>901,867</u>
Current deferred income tax liabilities -		
Fuel component adjustment	US\$ 447,707	US\$ 5,017,442
Treasury lock derivative	<u>1,194,750</u>	<u>-</u>
Total deferred income tax liabilities	<u>1,642,457</u>	<u>5,017,442</u>
Current deferred income tax liabilities, net	<u>US\$ (573,991)</u>	<u>US\$ (4,115,575)</u>

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 September 30, 2006.

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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 September 30, 2006 and December 31, 2005 within other comprehensive income as an after-tax gain (loss) in the amount of US\$3,292,493 and US\$(457,493), respectively and is presented as part of the Accumulated other comprehensive income in the Statement of Stockholder's Equity. 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\$3,292,493 (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 expects to reclassify the amount of US\$567,000 net from the Interest expense during the next twelve months. The Company does not enter into derivative transactions for trading or speculative purposes.

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Notes to Financial Statements
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7. Long-Term Notes and Bank Loan

At September 30, 2006 and December, 31 2005, long-term notes and bank loan is as follows:

	September 30, 2006	December 31, 2005
Short-Term Facilities:		
The Bank of Nova Scotia	-	5,000,000
Total short term facilities	-	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.	-	33,250,000
Primer Banco del Istmo, S. A.	-	33,250,000
Citibank, N.A., Panama Branch	-	19,000,000
Banco Bilbao Vizcaya Argentaria (Panamá), S. A.	-	9,500,000
Long-Term Notes:		
Senior Notes, unsecured and unsubordinated due on 2021 with fixed rate of 7.60% per annum and semiannually interest payments	100,000,000	-
Total long-term facilities	100,000,000	95,000,000
Less:		
Senior notes discount	856,101	-
Current portion	-	10,000,000
Total Long-Term Debt, net	<u>US\$ 99,143,899</u>	<u>US\$ 90,000,000</u>

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

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

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The Company has available short-term credit 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 credit facilities of US\$50,300,000 in September 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 charges, net

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

	September 30, 2006	September 30, 2005
Purchase of energy	US\$177,020,120	US\$144,857,007
Transmission charges	7,987,705	6,679,017
Fuel component adjustment	<u>15,232,450</u>	<u>(10,299,401)</u>
Total net purchase of energy and transmission charges	<u>US\$ 200,240,275</u>	<u>US\$141,236,623</u>

9. Commitments and Contingencies

At September 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.

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The Company challenged the ASEP (previously Ente Regulador de los Servicios Públicos) on Resolution JD-2626 which orders the Company to reimburse power generating companies for public lighting charges. The Company based its argument on the fact that the 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 and denying any reimbursement to generators.

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

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

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In accordance with the 1997 Electricity Law, the Company enters into long-term power purchase agreements with electricity generators that cover most of its regulated customers' contributions to the total peak customer demand of electricity and work towards limiting any associated energy costs. Historically, the Company contracts annually for approximately 79% to 85% of its total energy requirements via purchase agreements on the contract market. For ninth months ended September 30, 2006, the Company purchased approximately 94% 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 September 30, 2006, is as follows:

Year	Payment Obligation
2006	US\$ 41,088,691
2007	36,384,835
2008	39,860,035
2009	40,805,306
2010	66,006,408
Thereafter	<u>506,508,660</u>
Total	<u>US\$ 730,653,935</u>

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 ASEP for US\$8,000,000 in compliance with clause 53 of the Concession Contract.

As of 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\$762,669.

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.

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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.

The ASEP (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 ASEP, this alleged excess was generated from the difference between the breakdown by tariff type of the forecast used to determine the tariff structure and the actual breakdown.

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

Concession Contract

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

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

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.