Free English Language Translation
From Spanish Version

Elektra Noreste, S.A.

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

Financial Statements for the period ended September 30, 2014

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

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September 30, 2014

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Management Report – Elektra Noreste, S.A.

We have reviewed the attached interim financial statements of Elektra Noreste, S.A. (the "Company"), which comprise the balance sheets as of September 30, 2014 and December 31, 2013, and the income statements, the statements of changes in shareholders' equity, and cash flow statement for the nine months ended on that date, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility over the Interim Financial Statements

The administration of Elektra Noreste, S.A. is responsible for the information and representation in the financial statements of the Company. The Company prepares the interim financial statements in accordance with the International Financial Reporting Standards based on available facts and circumstances, in the best estimates of management and the assessment of existing conditions.

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

Public Accountant's Responsibility

Our responsibility is to prepare the interim financial statements of the Company under International Financial Reporting Standards ("IFRS") based on their accounting records. In preparing the financial statements, we have reviewed the accounting information in order to validate the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements in question.

We believe that the evidence of the review that we have obtained is sufficient and appropriate to provide a reasonable basis. In our consideration, the interim financial statements present fairly, in all material aspects, the financial position of the Company as of September 30, 2014, and its financial performance, and its cash flows for the nine months then ended, in accordance with the International Financial Reporting Standards ("IFRS").

Eric Morales
CPA No.1769
Panama, November 27, 2014

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

Balance sheet (unaudited)
September 30, 2014 and December 31, 2013
(Expressed in United States dollars)

Assets	**Notes**	**2014**	**2013**
Current assets:			
Cash and cash equivalents		US$ 2,210,141	US$ 4,958,418
Trade and others, net	3	105,512,011	88,085,194
Government subsidy	4	61,208,397	-
Inventory		18,496,702	15,436,938
Prepaid income tax		9,803,814	2,003,465
Other current assets		624,083	380,168
Total current assets		197,855,148	110,864,183
Noncurrent assets:			
Deferred income tax	5	1,931,849	1,740,975
Intangibles, net		15,023,531	7,659,647
Investment properties		1,697,505	1,697,505
Other noncurrent assets		1,681,428	2,036,119
Property, plant, and equipment, net		354,983,208	341,982,064
Total noncurrent assets		375,317,521	355,116,310
Total assets		573,172,669	465,980,493
Regulatory deferral account debit balance	8	10,492,880	4,185,753
Total assets and regulatory deferral account debit balance		US$ 583,665,549	US$ 470,166,246

Liabilities and Shareholders' Equity	**Notes**	**2014**	**2013**
Current liabilities:			
Generation and transmission		US$ 109,646,448	US$ 77,147,180
Suppliers		14,734,796	14,163,737
Construction contracts		18,155,963	15,162,943
Government subsidy	4	-	4,069,994
Customers' deposits		2,381,018	2,133,020
Withholding taxes to employees		312,484	432,457
Interest payable on debt		2,889,121	3,801,163
Accrued expenses		5,227,176	2,806,367
Short-term debt	6	43,000,000	-
Total current liabilities		196,347,006	119,716,861
Noncurrent liabilities:			
Deferred income tax	5	10,852,609	3,080,893
Customers' deposits		4,893,541	4,565,510
Provision for contingencies	9	696,791	302,198
Employees benefits		452,421	459,424
Other accrued liabilities		3,285,701	3,456,181
Long-term debt	6,10	196,662,763	196,391,986
Total noncurrent liabilities		216,843,826	208,256,192
Commitments and contingencies	9		
Shareholders' equity:			
Authorized and issued common stock: 50,000,000 shares without par value; Stock in treasury: 160,031		106,098,875	106,098,875
Other comprehensive loss		(230,312)	(243,383)
Retained earnings		61,458,290	35,081,975
Total shareholders' equity		167,326,853	140,937,467
Deferred tax associated with regulatory deferral account balance		3,147,864	1,255,726
Total liabilities, shareholders' equity and regulatory deferral account credit balance		US$ 583,665,549	US$ 470,166,246

The accompanying notes are an integral part of these financial statements

Elektra Noreste, S.A.

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

Statement of profit and loss and other comprehensive income (unaudited)
For the nine months ended September 30, 2014 and 2013
(Expressed in United States dollars)

	Notes	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Revenues:					
Energy sales		US$ 518,739,877	US$ 399,660,376	US$ 174,102,219	US$ 135,158,026
Other revenues		10,092,943	11,061,953	2,959,289	3,375,680
Total revenues		528,832,820	410,722,329	177,061,508	138,533,706
Purchase of energy and transmission charges	7	436,837,095	322,021,860	140,294,554	107,611,770
Gross distribution margin		91,995,725	88,700,469	36,766,954	30,921,936
Operating expenses:	7				
Wages and other personnel related expenses		8,229,479	7,260,482	2,252,419	1,948,076
Allowance for uncollectibles accounts, net of recoveries		1,581,017	1,059,991	695,478	457,513
Repair and maintenance		2,540,112	2,592,927	1,047,100	874,752
Professional services		12,249,043	12,002,593	4,323,565	4,167,640
Depreciation and amortization		15,311,652	14,979,098	5,326,184	4,994,212
Administrative and other		9,884,651	6,926,200	5,007,124	2,907,526
Loss on disposal of fixed assets		620,579	416,780	485,167	29,781
Total operating expenses		50,416,533	45,238,071	19,137,037	15,379,500
Operating income		41,579,192	43,462,398	17,629,917	15,542,436
Interest income		300,260	340,197	56,695	73,308
Finance cost		(8,758,104)	(8,492,439)	(2,935,871)	(2,867,718)
Income before income taxes		33,121,348	35,310,156	14,750,741	12,748,026
Income taxes:	5				
Current		2,325,208	11,531,932	2,332,070	2,162,501
Deferred -expense (benefit)		7,584,843	(1,162,545)	2,101,470	1,439,008
Total income taxes		9,910,051	10,369,387	4,433,540	3,601,509
Profit for the year before net movements in regulatory deferral account balances		23,211,297	24,940,769	10,317,201	9,146,517
Net movement in regulatory deferral account balances related to profit or loss	8	6,307,126	3,176,000	(688,264)	57,000
Net movement in the deferred tax asset (liability) arising from regulatory deferral account balances related to profit or loss		1,892,138	952,800	(206,479)	17,100
Profit for the year and net movements in regulatory deferral account balances		**US$ 27,626,285**	**US$ 27,163,969**	**US$ 9,835,416**	**US$ 9,186,417**
Other comprehensive income					
Remeasurements of employee benefits plans		9,070	-	-	-
Total de utilidades integrales		**US$ 27,635,355**	**US$ 27,163,969**	**US$ 9,835,416**	**US$ 9,186,417**
Profit for the year and net movements in regulatory deferral account balances attributable to:					
Owners of the Company		14,133,607	13,897,087	5,031,799	4,699,771
Non-Controlling interest		13,492,678	13,266,882	4,803,617	4,486,646
		US$ 27,626,285	US$ 27,163,969	US$ 9,835,416	US$ 9,186,417
Total comprehensive income attributable to:					
Owners of the Company		14,138,248	13,897,087	5,031,799	4,699,771
Non-Controlling interest		13,497,107	13,266,882	4,803,617	4,486,646
		US$ 27,635,355	US$ 27,163,969	US$ 9,835,416	US$ 9,186,417

The accompanying notes are an integral part of these financial statements

Elektra Noreste, S.A.

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

Statements of Changes in Shareholder's Equity (unaudited)
For the nine months ended September 30, 2014 and 2013
(Expressed in United States dollars)

	Common Stock	Treasury Stock	Other Comprehensive Income (loss)	Retained Earnings	Total Equity
Balance as of January 1, 2013	US$ 106,642,962	US$ (544,087)	US$ (110,195)	US$ 35,300,149	US$ 141,288,829
Dividends paid	-	-	-	(35,276,880)	(35,276,880)
Complementary dividend tax, net	-	-	-	741,035	741,035
Net income	-	-	-	27,163,969	27,163,969
Balance as of September 30, 2013	106,642,962	(544,087)	(110,195)	27,928,273	133,916,953
Balance as of December 31, 2013	106,642,962	(544,087)	(243,383)	35,081,976	140,937,468
Remeasurements of employee benefits plans	-	-	13,071	-	13,071
Complementary dividend tax, net	-	-	-	(1,249,971)	(1,249,971)
Net income	-	-	-	27,626,285	27,626,285
Balance as of September 30, 2014	US$ 106,642,962	US$ (544,087)	US$ (230,312)	US$ 61,458,290	US$ 167,326,853

The accompanying notes are an integral part of these financial statements

Elektra Noreste, S.A.

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

Statement of Cash Flows (unaudited)
For the nine months ended September 30, 2014 and 2013
(Expressed in United States dollars)

	2014	2013
Cash flows from operating activities:		
Net income	US$ 27,626,285	US$ 27,163,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,311,652	14,979,098
Loss on disposal of fixed asset	620,579	416,780
Provision for doubtful accounts, net of recoveries	1,581,017	1,059,991
Increase in fair value of investment property	-	(973,300)
Amortization in Discount and debt issuance costs	270,777	193,694
Deferred income tax and deferred tax in regulatory deferral accounts	9,476,981	(209,744)
Net movement in regulatory deferral account balances	(6,307,127)	(3,176,000)
Change in operating assets and liabilities:		
Accounts receivable	(18,991,052)	(16,332,921)
Government subsidy	(65,278,391)	26,715,433
Inventory	(3,059,764)	(434,739)
Other assets	110,776	(681,640)
Trade accounts payable and other liabilities	50,042,282	22,419,633
Employees benefits	2,067	204,271
Income tax paid	(10,047,089)	(32,989,526)
Interest paid	(9,543,258)	(9,038,514)
Net cash (used in) provided by operating activities	(8,184,265)	29,316,485
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	83,462	107,899
Acquisition of fixed assets	(36,397,503)	(36,339,045)
Net cash used in investing activities	(36,314,041)	(36,231,146)
Cash flows from financing activities:		
Proceeds from short-term debt	43,000,000	5,000,000
Dividends paid		(35,276,880)
Complementary dividend tax paid	(1,249,971)	(741,035)
Net cash provided by (used in) financing activities	41,750,029	(31,017,915)
Cash and cash equivalents:		
Net decrease for the period	(2,748,277)	(37,932,576)
Beginning of period	4,958,418	41,773,932
End of period	US$ 2,210,141	US$ 3,841,356

The accompanying notes are an integral part of these financial statements

1. Nature of Operations and Basis of Presentation

Elektra Noreste, S.A. (the "Company") is a corporation formed as a result of the privatization of the Institute for Hydraulic Resources and Electricity ("IRHE"). The Company was incorporated by means of Public Deed No.143, dated January 19, 1998, and began operations in January 1998. The authorized 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 common shares of the Company, while the Government of Panama 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. In addition, the Company performs voltage transformation, the delivery of power to end consumers, meter reading, invoicing and collection of energy. The Company is also responsible for installing, operating, and maintaining public lighting in the concession area (as defined in the following paragraph), according to the lighting levels and criteria established by the National Authority of Public Services (Autoridad Nacional de los Servicios Públicos) ("ASEP"in Spanish). Additionally, the Company is authorized to engage in power generation activities up to a limit of 15% of the peak demand and energy in the concession area.

According to the concession contract described in Note 9, the Company has exclusive rights for the distribution and commercialization of electric energy to customers located in the geographical areas of Panama East, Colon, Panama Bay, the Comarca Kuna Yala and Darien. Exclusive rights in the distribution phase also includes "large customers," which are defined by Law 6 dated February 3, 1997, as costumers with a peak demand over 100 KW per site, who are allowed to purchase energy directly from other agents of the electricity market.

The initial concession area is delimited to the geographical area to 1,000 meters around existing power lines of any voltage, which previously comprised up to 500 meters. After three years, the concession area gradually expands every two years 1,000 meters from existing power lines of any voltage up to 5,000 meters. With this new condition, the Company is required to incorporate in a term of 10 years all the communities that are less than 5,000 meters from the existing lines at the effective day of this concession contract.

Basis of Presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

2. Summary of Significant Accounting Policies

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

2.1 Cash and Cash Equivalents

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

2.2 Accounts Receivable

Accounts receivable are recorded at the invoiced amount and bear interest on past due balances. Interests are calculated until the customer account is closed, which occurs approximately 60 days after electric power service has been suspended and are recognized as income when collected.. It is the Company's policy to review outstanding accounts receivable balances on a monthly basis and adjust the allowance for uncollectible accounts.

The Company establishes an allowance for losses if it determines that amounts may not be collectible. The Company estimates the allowance based on the length of time the debt has been past due, factors or conditions affecting its customers, and historical experience. Account balances are written off after collection efforts and the potential for recovery are considered remote. The Company does not have any off-balance-sheet credit risk related to its customers.

2.3 Inventory

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

Inventories are valued using the weighted average method and cost includes the costs directly related to the acquisition and those incurred on giving its condition and actual location. Subsequent measurement is carried at the lowest of cost and net realizable value. For inventory purchased for rendering of services and internal consumption, net realizable value is the replacement cost.

2.4 Property, Plant, and Equipment

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

Costs associated with significant improvements made to the property, plant and equipment are capitalized as well as disbursements for major improvements. 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. In addition, the Company also capitalizes interest during the construction period.

Property, plant and equipment and intangible assets with definite useful lives are assessed annually for impairment to determine if there is evidence that the carrying amount may not be recoverable. Assets are grouped for impairment test at the smallest identifiable group that generates largely independent cash inflows (the cash generating unit). Impairment test comprises a comparison of the carrying amount of a cash generating unit with its recoverable amount. Where the carrying amount of cash generating unit exceeds its recoverable amount, it is considered impaired and is written off to its recoverable amount. Reversal of previously recognized impairment losses is permitted, except for goodwill. The recoverable amount of an asset or group of assets is the higher amount between its fair value less cost to sell and its value in use. Value in use is estimated based on future cash flows expected to derive from an asset or cash generating unit, discounted at a pre-tax discount rate. This rate derives from the Company's weighted average cost of capital ("WACC"). The main assumptions used for future cash flows are: prices based on the Company's most recent strategic plan; fuel oil curves, operating costs reflecting market conditions and investments required for carrying out the projects in the distribution grid. As of September 30, 2014 and 2013, no impairment of long-lived assets was identified.

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

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

	Estimated useful life (in years)
Poles, towers, and accessories	30
Electric transformers	30
Underground conductors and ducts	30 - 35
Overhead conductors and accessories	12 - 30
Substation equipment	12 - 30
Consumer meters	15 - 20
Buildings and improvements	50
Public lighting equipment	25
Transportation equipment	8
Communications equipment	8 to 25
Office furniture and equipment	5 to 20

2.5 *Purchased Energy and Transmission Charges*

The Company is required by law to guarantee through contracts the coverage of 100% of its regulated costumers' demands for the next 24 months. The strategy of energy purchase is based on holding medium and long-term contracts to protect costumers of the strong fluctuations in generation charges rates. These contracts are considered executory in nature, and do not transfer to the Company the right to use the related property, plant or equipment. These contracts for the purchase of energy and capacity qualify under the exceptions of accounting for derivative instruments, since they comply with the conditions for normal purchase and normal sales. In addition the Company also engages in short-term hourly purchases in the wholesale market, which is administered by the Centro Nacional de Despacho ("CND"). The Company recognizes the current cost of energy purchases resulting from these contracts in the income statement.

In addition, the Company also pays a regulated rate to Empresa de Transmisión Eléctrica, S.A. ("ETESA"), a wholly-owned company by the Panamanian Government, for the connection and use of the transmission system. ETESA is responsible for expanding and upgrading the transmission system to meet the demand's growth requirements and the system's stability.

2.6 *Income Tax*

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

The deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the value of assets and liabilities presented in the financial statements and their respective tax basis. Deferred tax assets and liabilities are measured based on the application of the tax rate established for taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Income Statement in the period in which the change is enacted. A valuation allowance is recorded to reduce the value of deferred tax assets, when it is not probable that tax benefits can be completely realized.

2.7 Customer Deposits

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

The ASEP has issued Resolutions AN 411-Elec (November 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, in other words, the client has had no more than three late payments in a twelve-month period, the deposit shall be returned to the customer. The Company classifies the deposits of customers who do not meet the condition of having good payment record as non-current liabilities.

2.8 Contingencies

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

2.9 Employees benefits

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. The Labor Code, as amended by Law 44 of August 12, 1995, requires all employers to establish an unemployment trust fund to cover the payment of the seniority premium and severance pay for unjustified dismissal or justified resignations. The Company maintains a trust fund through an authorized private entity, Progreso, S.A., which acts as trustee to secure severance fund liability. The Company qualifies this obligation as post-employment benefit plans therefore, apply accounting requirements according to IFRS. The liability recognized in the balance sheet related to employees benefit is the present value of the benefits liability at the balance sheet date, less the fair value of the plan assets and any past service costs not yet recognized. The employees benefit liability is calculated annually by independent actuaries using the projected unit credit method. The present value of the benefit liability is determined by discounting the estimated future cash outflow, using interest rates consistent with market yields and with maturities close to those liabilities of the respective benefit obligation. Past service costs are immediately recognized in the income statement. Actuarial gains and losses arising from adjustments based on experience and changes in actuarial assumptions are accounted for in Other Comprehensive Income (Loss).

2.10 Related Parties

As a result of the restructuring of the electricity sector in Panama, three distribution companies, four generating companies and one transmission company were created. The Panamanian Government retains an approximate fifty-one percent (51%) of participation in the hydraulic generating companies, a

forty-nine percent (49%) participation in the thermoelectric-generating companies and distribution companies, and a one hundred percent (100%) participation in the transmission company. The Panamanian Government retained 48.25% of the Company's shares 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.

2.11 Regulatory Deferral Accounts

The Company is subject to regulation by the ASEP. This entity is responsible for regulating and establishing the final rates the Company charges to its customers. The Company maintains its accounting records in accordance with the Uniform System of Accounts prescribed for electric utilities by the ASEP.

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

Regulatory deferral account debit balance represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory deferral account credit balance represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

2.12 Revenue Recognition

Sale of energy

The Company recognizes its revenues for energy sales when the energy 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 customers include energy cost and distribution components. The energy cost component operates as a "pass-through" and considers the energy purchased and transmission charges while the distribution components is set by the ASEP to allow distribution companies 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, while the distribution components are adjusted based on the consumer price index.

The Company recognizes as revenue the sale of energy that have not yet been invoiced, but where electricity has been consumed by customers. This revenue is recorded as unbilled revenue as part of the accounts receivable on the balance sheet and is calculated based on actual daily average energy and applicable approved rates for regulated customers of the Company.

Other revenues

The Company recognizes connection and reconnection charges, pole rentals, and toll charges when the service is rendered. These charges are included in other operating revenue in the income statement.

2.13 Use of Estimates

The preparation of the financial statements in accordance with International Financial Reporting Standards requires Management to make estimates and assumptions that affect the reported amounts of assets, 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 on the evaluation made by Management of the relevant facts and judgments. Actual results could differ from these estimates. The most significant estimates include but are not limited to, the useful life for depreciation and amortization, allowances for doubtful accounts, estimates of future cash flows associated with asset deterioration, loss contingencies, recovery or refund of regulatory deferral accounts and estimated unbilled revenue.

2.14 Intangible, Net

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

2.15 Concentration of credit risk

The Company is exclusively engaged in the distribution and marketing of energy to customers located in its concession area. The Company does not believe that significant risk of loss due to concentration of credit risk exists, given the large number of customers that comprise its customer base and their geographical dispersion. Additionally, the Company also believes that its potential credit risk is adequately covered by the allowance for doubtful accounts.

2.16 Environment

The Company recognizes as part of the cost of a fixed asset in particular, the estimation of future costs expected to be incurred for dismantling or restoration provided there is legal or constructive obligation to dismantle or restore. Its counterpart is recognized as a provision for decommissioning and restoration costs. The decommissioning cost is depreciated over the estimated useful life of the asset.

The Company is subject to a number of laws and regulations related to the environment, health and safety. In July 1998, the Panamanian Government passed a law creating an environmental protection agency (National Environmental Authority "ANAM") and imposed new environmental standards for the protection of the environment that have an effect on the Company's operations. Failure to comply with these standards, laws, and regulations for the protection of the environment may require additional investments or may adversely affect the Company's financial results. The Company records a provision for all confirmed or estimated Poly Chlorinated Bi-Phenol ("PCB") contaminated transformers whether it is currently in use or taken out of service. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the particular asset. The cash flows are discounted at a pre-tax rate that reflects the average indebtedness rate for the Company. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset, without exceeding the carrying value of the asset, any excess is recognized immediately in the statement of income. Changes in the value of the provision associated with the passage of time it is recognized as finance cost in the statement of income.

Costs for environmental protection are capitalized if they extend the useful life of the property, increase its capacity and mitigate or prevent contamination from future operations. Costs associated with the treatment and environmental pollution clean-up are charged to expense.

2.17 Current and non-current classification

In the statements of financial position, assets and liabilities expected to be recovered or settled within twelve months are presented as current items, and those assets and liabilities expected to be recovered or settled in more than twelve months are presented as non-current items.

2.18 Currency

The financial statements are expressed in United States dollars (US$); however, records are maintained in Balboas. The Balboa, the unit of currency in the Republic of Panama, is at par and is of free exchange with the dollar of the United States of America. The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal tender.

2.19 New accounting standards

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

International Financial Reporting Standard 13 Fair Value Measurement (IFRS 13): defines fair value; sets out in a framework for measuring fair value; and requires disclosures about fair value measurements. Applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The IFRS is to be applied for annual periods beginning on or after 1 January2013. Earlier application is permitted,. This IFRS explains how to measure fair value for financial reporting. It does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting.

IFRS 7, "Financial Instruments: Disclosures" applies to all risks arising from all financial instruments. The IFRS applies to all entities, including entities that have few financial instruments (eg a manufacturer whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (eg a financial institution most of whose assets and liabilities are financial instruments). However, the extent of disclosure required depends on the extent of the entity's use of financial instruments and of its exposure to risk. The IFRS requires disclosure of: (a) the significance of financial instruments for an entity's financial position and performance. These disclosures incorporate many of the requirements previously in IAS 32. (b) qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create. Amendments to IFRS 7, "Disclosures—Offsetting Financial Assets and Financial Liabilities" issued in December 2011, amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. This amendment is effective for annual periods beginning on or after January 1, 2013.

IFRIC 21, "Levies", this interpretation of IAS 37, "Provisions, Contingent Assets, and Contingent Liabilities," provides guidance on when an entity must recognize a liability for a levy imposed by a

government other than income tax in its financial statements. This interpretation is effective for annual periods beginning on or after January 1, 2014.

Amendment to IAS 36, "Impairment of Assets", this amendment clarifies the extent of disclosures regarding the recoverable value of impaired assets, limiting the information requirements to the recoverable amount, based on the fair value less costs of disposal. This amendment is effective for annual periods beginning on or after January 1, 2014.

IFRS 14, "Regulatory Deferral Accounts", this standard permits an entity that adopts IFRS to continue to use, in its first and subsequent IFRS financial statements, its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances, requires entities to present regulatory deferral account balances as separate line items in the statement of financial position, to present movements in those account balances as separate line items in the statement of profit or loss and requires specific disclosures to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with this Standard. An entity shall apply this Standard in its first annual IFRS financial statements for periods beginning on or after 1 January 2016. Earlier application is permitted. The Company adopted this standard anticipated.

On Management's opinion, the application of these standards, interpretations, and amendments did not have a significant effect on the financial statements of the Company.

3. Accounts receivable - trade and other, net

At September 30, 2014 and December 31, 2013, accounts receivable - trade and other are presented below:

	September 30, 2014	December 31, 2013
Customers (Note 8)	US$ 79,831,611	US$ 67,941,941
Government and municipal entities	22,624,000	18,766,254
	102,455,611	86,708,195
Supplied energy, unbilled	12,367,290	9,872,600
Other	3,914,836	3,035,595
	118,737,737	99,616,390
Allowance for doubtful accounts	(13,225,726)	(11,531,196)
Total	US$ 105,512,011	US$ 88,085,194

As of September 30, 2014, the Company had no balances written off against its allowance for doubtful accounts (September 30, 2013: US$54,642), but recovered debts of accounts previously written-off for the amount of US$113,513 (September 30, 2013: US$301,736).

4. Government subsidy

As of September 30, 2014, Government Subsidy totals US$61,208,397 and includes balances due from subsidies granted by the Panamanian Government to customers through the Rate Stabilization Fund (Fondo de Estabilización Tarifaria ("FET"), in Spanish), the Energy Compensation Fund (Fondo de Compensación Energética ("FACE"), in Spanish) and Variation in Fuel surcharge (Cargo por Variación de Combustible ("CVC"), in Spanish) in the amount of US$12,306,714, US$31,034,982 and US$17,866,701, respectively. The FET is given to customers with consumption of less than 400 kWh (December 31, 2013: 450kWh) per month and is also granted when the Panamanian Government agrees to subsidize the tariff adjustments.

The FACE was created by Cabinet Resolution No.174 of November 8, 2011, which approved the creation of a Trust Agreement for the establishment of this fund which aims to compensate the energy distribution companies for the amounts owed to them by the updating of electricity rates due to the commitment acquired by the Panamanian Government to mitigate the transfer of the inflation imported to the country due to increases in fuel prices. The Trust Agreement provides that in the periods in which the rates submitted by the electricity distribution companies and verified by the ASEP result above current rates applied to customers of the previous semester, the FACE will be used to offset these increases, otherwise, the difference will be refunded to the FACE to compensate the disbursements during the previous rate periods.

As of December 31, 2013, Government Subsidy payable was for the amount of US$4,069,994 and includes balances due from subsidies granted by the Panamanian Government to customers through the Rate Stabilization Fund (FET) and the Energy Compensation Fund (FACE) in the amount of US$4,031,006 and US$193,000 net of US$8,294,000 in credit balances for Variation in Fuel surcharge for the period front July to December 2013. The differential partial credit for monthly update was canceled as indicated in Resolution AN-7066 Elec as of January 30, 2014.

5. Income tax

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

The difference between the provision for income taxes for the periods ended September 30, 2014 and 2013 and the tax calculated using the enacted statutory tax rate of 30% for income before income taxes reported in the financial statements is attributable to the following:

	September 30, 2014	September 30, 2013
Income tax:		
Computed at statutory rate	US$ 9,936,404	US$ 10,593,047
Decrease in income tax due to non-tabable income	(77,244)	(248,033)
Adjustment from prior year tax return	(402)	3,206
Increase in income tax rate due to non-deductible expenses	51,293	21,167
Total income tax	**US$ 9,910,051**	**US$ 10,369,387**

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

	September 30, 2014	December 31, 2013
Deferred income tax assets:		
Provision for doubtful accounts	US$ 611,849	US$ 936,687
Employee benefits	135,726	137,826
Inventory	61,049	85,951
Financial liability	-	53,166
Dismantling provision	51,039	48,869
Other provision	1,072,186	478,476
Total deferred income tax assets	**US$ 1,931,849**	**US$ 1,740,975**

	September 30, 2014	December 31, 2013
Deferred income tax liabilities:		
Accounts receivables - FACE and CVC	US$ 8,151,367	US$ 404,400
Financial assets	260,055	132,753
Investment property revaluation	297,514	297,514
Accumulated depreciation applicable to future periods	2,143,673	2,246,226
Total deferred income tax liabilites	**US$ 10,852,609**	**US$ 3,080,893**

Changes in deferred income related to the creation or reversal of temporary differences recognized in the income statement are presented as follows:

		September 30, 2014		September 30, 2013
Deferred income tax assets movement:				
Provision for doubtful accounts	US$	324,838	US$	(249,683)
Employee benefits		6,102		(61,281)
Inventory		24,901		7,935
Financial liability		53,165		(20,852)
Dismantling provision		(2,170)		(1,514)
Other provision		(593,709)		(121,599)
Total deferred income tax assets movement	US$	(186,873)	US$	(446,994)
Deferred income tax liabilities movement:				
Accounts receivables - FACE and CVC	US$	7,746,967	US$	(844,800)
Financial assets		127,302		7,312
Investment property revaluation		-		224,490
Accumulated depreciation applicable to future periods		(102,553)		(102,553)
Total deferred income tax liabilities movement	US$	7,771,716	US$	(715,551)
Total deferred income tax expense (benefits)	US$	7,584,843	US$	(1,162,545)

In accordance with tax regulations, the income tax returns of companies incorporated in the Republic of Panama are subject to review by the tax authorities for the past three years. The years beginning after 2011 are subject to examination by the tax authority, although no tax examination is scheduled or in process. The years prior to 2011 are considered closed periods.

The Company periodically evaluates positions taken in tax returns on income, with respect to situations in which applicable tax regulation is subject to interpretation. The Company believes that each tax position taken can be sustained based solely on its technical merits in the case of an inspection by the tax authorities. As of September 30, 2014, and December 31, 2013, the Company maintains provisions on the amounts that expect to pay to the tax authorities.

Investment tax credit

During 2001, the Company received an investment tax credit in the amount of US$13,673,745, which was granted by the Panamanian Government under a law that promoted incentive infrastructure investments to expand distribution network of electricity. The tax credit can be applied as a reduction of up to 25% of the income tax incurred in the fiscal period, until 100% of the tax credit is spent in future years. The Company has been using this tax credit over the years. All of this credit has already been used.

Due to the tax benefit received, the Company is not allowed to deduct for tax purposes the depreciation expense related to investment in infrastructure by the sum of US$13,673,745, which will have a total tax effect of US$4,102,123.

6. Debt

Short-term debt

As of September 30, 2014 and December 31, 2013 the obligations for credit facilities are detailed as follows:

		September 30, 2014		December 31, 2013
Banco Nacional de Panamá	US$	20,000,000	US$	-
The Bank of Nova Scotia		10,000,000		-
Banco Latinoamericano de Comercio Exterior		13,000,000		-
Total short-term debt	US$	43,000,000	US$	-

The Company has contracts for lines of credit facilities with The Bank of Nova Scotia, Banco General, S.A., HSBC Bank (Panama), S.A., Banco Panama, S.A., Banco Nacional de Panama and Banco Latinoamericano de Comercio Exterior with a total value of credit lines as of September 30, 2014 of US$ 152,000,000 (2013: US$125,000,000), with annual interest rates of LIBOR between one (1) to three (3) or six (6) months, plus a margin between 2% to 2.5%. Credit lines are not subject to warranty and are available for a maximum period of one year. The minimum rate of these revolving arrangements is between 2% and 5%. The Company uses these credit facilities as needed for working capital or other needs. These credit facilities have a ranking of "pari passu" with other unsecured “senior” obligations and unsubordinated obligations of the Company. The credit facilities include, among other provisions, an indicator of debt coverage which sets a debt limit not exceeding 3.25 of its EBITDA.

Long-term debt

As of September 30, 2014 and December 31, 2013 the balance of the long-term debt and its fair value is detailed as follows:

	September 30, 2014		December 30, 2013	
	Book value	**Fair value**	**Book value**	**Fair value**
Senior notes 2021	US$ 97,899,193	US$ 120,704,000	US$ 97,743,473	US$ 117,956,000
Corporate bonds 2018	20,047,752	18,138,613	19,980,091	18,062,836
Senior notes 2027	78,715,818	79,709,600	78,668,422	72,370,400
Total long-term debt	US$ 196,662,763	US$ 218,552,213	US$ 196,391,986	US$ 208,389,236

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

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

Corporate bonds 2018
On October 20, 2008, in a public offering, the Company offered corporate "Bonds" with a face value of US$40,000,000 unsecured and unsubordinated with a maturity date of October 20, 2018. On such date, US$20,000,000 of these corporate bonds were signed and issued with Banco General, S.A. The bonds have a ranking of pari passu with other unsecured and not guaranteed obligations of the Company. The bonds will bear interest at LIBOR plus 2.375% per annum, payable on a quarterly basis. Principal is due upon maturity. The proceeds from the offering of the bonds 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. The Company may redeem the bonds, in whole or in part, at the third anniversary from the date of the offer.

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

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

With reference to the Note Purchase Agreement and the Indenture Agreement, the Company signed on December 13, 2012 a Bridge Loan Agreement where the Company agrees to issue unencumbered promissory notes ("Bridge Notes,") payable to each of the purchasers for a total of US$80,000,000. In turn, each of the purchasers agrees to transfer funds corresponding to each of the Bridge Notes to the Company. The Agreement provides that the Bridge Notes will bear annual interest of 4.73% cumulative from the date the funds are transferred, with a maturity date of February 1, 2013 or on the date of termination of the Loan Agreement, whichever occurs first. The Loan Agreement may be terminated by mutual agreement of the parties or in case of not issuing the Corporate Notes or Senior Notes. The Loan Agreement requires the Company to maintain and ensure it has indebtedness capacity in funds available in its credit lines facilities along with its with cash equivalents for an amount in excess of the amount to be paid for the termination of this agreement.

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

During the time the Indenture Agreement remains outstanding, the Company shall comply with the terms of

the agreements, some of which are indicated below:

- Prohibition of creating assuming, incurring or suffering any Lien on any of the properties or assets of the Company or its subsidiaries.

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

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

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

The Company defers all costs related to the issuance of long-term debt. These costs include commission costs 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 and is presented net of the long term debt in the balance sheet of the Company.

7. Costs and operating expenses

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

	Nine months ended September 30		Three months ended September 30	
	2014	**2013**	**2014**	**2013**
Purchase of energy	US$ 421,659,944	US$ 308,957,290	US$ 135,042,118	US$ 103,247,574
Transmission charges	15,177,151	13,064,570	5,252,436	4,364,196
Total purchase of energy and transmission charges	US$ 436,837,095	US$ 322,021,860	US$ 140,294,554	US$ 107,611,770

The Company presents its expenses in the income statement according to their nature. The following is a summary of those expenses classified for their function:

	Nine months ended September 30		Three months ended September 30	
	2014	**2013**	**2014**	**2013**
Operating and maintenance expenses	US$ 22,460,341	US$ 20,705,334	US$ 8,778,573	US$ 6,659,307
Commercialization expenses	14,846,746	13,158,855	5,222,530	4,898,138
Administrative expenses	12,488,867	10,957,102	4,650,767	3,792,274
Loss on disposal of fixed asset	620,579	416,780	485,167	29,781
Total operating expenses	US$ 50,416,533	US$ 45,238,071	US$ 19,137,037	US$ 15,379,500

8. Regulatory Deferral Accounts

The regulated system under which the Company operates allows any excess or deficiency between the estimated cost of energy considered in the rate and the actual cost incurred by the Company to be included as a compensatory adjustment to be recovered from or refunded to customers at the next rate review. Any excess in energy costs charged to customers is accrued as deferred regulatory credit balance account in the balance sheets and leads to a reduction in the next tariff review to be applied to customers. Likewise, any shortfall in energy costs charged to customers is accrued as deferred regulatory debit balance account in the balance sheets and leads to an increase in the next tariff revision to be recovered from customers. The debit balance (credit) for deferred regulatory account includes six months of the current fuel price information, and six months with estimated fuel price information. Changes resulting from the increase and / or decrease on the recovery of these energy costs are reflected under the line net movement of deferred regulatory account related profit (loss) in the Income Statements of the Company.

For the last several years, the debit (credit) balance for deferred regulatory account has not been fully transferred to customers in the form of a rate increase; the amount not invoiced to customers has been subsidized by the Panamanian Government. As of September 30, 2014 the Government subsidy receivable is for US$61,208,397 (2013: a government subsidy payable for US$4,069,994) (see Note 4).
As of September 30, 2014 the Company has deferred purchases cost for an amount of US$10,492,880 (2013: US$4,185,753) presented under Deferred regulatory account debit balance in the balance sheet. These

deferred costs are the cumulative variances resulting from the energy cost considered in the establishment of the electric tariff versus the actual cost of energy purchased. The regulatory deferral account debit balance includes the amount of US$1,886,765 accumulated during the second half of 2013 to be recovered from customers in the tariff adjustment for the second half of 2014, and a debit balance of US$7,304,000 accumulated during the first semester of 2014, to be recovered from customers in the tariff adjustment of the first semester of 2015 and a debit balance of US$1,302,115 accumulated between July and September of 2014, to be recovered in the tariff adjustment of the second semester of 2015

The ASEP approved the rules of self-supply for customers of regulated electric utility, and the value to be compensated for self-supply through Resolution AN No. 3323 -Elec of March 10, 2010 and AN No. 3437 - Elec of April 20, 2010, and established that there would only be used when the National Dispatch Center (CND) declared rationing state of alert and when the ASEP indicates so. On April 26, 2013 CND through note No.ETE-DCND-GOP-409-2013 declared Alertness Energy Rationing which motivated the creation of the Resolution No. 1417 of May 6, 2013 and No. 1423 of May 7, 2013, in which the National Energy Secretariat proposed to adopt measures for the implementation of operational strategies necessary to ensure efficient , continuous and uninterrupted delivery of the electric utility , among which was the no use of air conditioning systems in the public sector, commercial offices, shopping centers, businesses and others, until the cease of the dry season. In addition, it was established by Resolution No.6138 -Elec May 7, 2013 the compensation value for self-supply energy customers to fifty cents (US$.0.50) per KWh. At June 30, 2014, the Company receivables includes the amount of US$8,732,557 in compensations to self-supply customers (31 December 2013: US$3,534,287), which is included under "Trade and other, net "in the balance sheet of the Company (see Note 3).

9. Commitments and Contingencies

Commitments

The rules of purchase for the contract market, established by Resolution No. 991 AN-Elec of July 11, 2007, as amended, set minimum recruitment obligations to distribution companies in medium and long term related to power and energy. The power must be contracted to cover the maximum demand generation of the company and energy should be hired according to the associated energy required. ETESA must make calls to the Acts of Concurrency to meet the needs of power and energy to final customers of electricity distribution companies and ensuring that minimum levels of recruitment are fulfilled to the distribution companies. The Company enters routinely in purchase contracts having different number and length requirements as part of its obligation to distribute and sell electricity to regulated customers. The Company shall recover the costs associated with these obligations in future rates to customers. In addition, all energy supply contracts are signed by the Company to meet its obligations to distribute energy to customers.

In compliance with the Electricity Act of 1997, the Company negotiated long-term purchase contracts with generation companies. These contracts cover most of the contribution of its regulated customers from the total of the peak electricity demand and works to limit any associated energy cost. Historically, the Company contracts in an annual basis 95% to 99%, approximately, of its total energy requirement on the contract market. As of September 30, 2014, the Company purchased approximately 81% of its total energy requirements through energy purchase contracts in the contract market. These contracts include both a fixed charge based on the energy capacity requirements and a variable charge based on energy consumed.

The Empresa de Transmision Electrica, S.A. (ETESA) is responsible for preparing the tenders for the purchase of energy on behalf of the distribution companies. Tenders are received, evaluated and awarded by ETESA and then assigned to each distribution company based on their requirements. Distribution companies are required to sign contracts based on the successful tenders.
The Company has various unconditional long-term contractual obligations related to the purchase of energy capacity. The aggregate amount of payments required for such liabilities is presented as follows:

Year	**Payment Obligation**
2015	US$ 99,954,590
2016	93,074,409
2017	125,333,223
2018	131,517,412
Thereafter	1,884,614,283
Total	US$ 2,334,493,917

As of September 30, 2014 the Company made expenditures for the amount of US$68,394,818 (2013: US$69,016,494) on such unconditional long-term contracts, recorded under purchase of energy and transmission charges, net, on the income statements.

The Company and the workers' union negotiate a Labor Collective Agreement every four years. The current Agreement expired in 2012 and a new agreement was signed at January 4, 2013. These agreements do not hold or consider additional material commitments besides those established in the labor law.

Operation Leases
The Company signed a non-cancellable lease agreement for a seven-year period, whose term began in May 2007, for the use of the offices and operating facilities. In October 2013, an automatic extension for an additional three years was requested; the maturity is until April 2017. As of September 30, 2014, the minimum rental payments required under this non-cancellable operating lease, starting or held for a period in excess of one year are:

Year	**Payment Obligation**
2014	US$ 137,227
2015	559,888
2016	576,684
2017	194,113
Total	US$ 1,467,912

As of September 30, 2014 the total operating lease expense was US$1,340,103 (2013: US$1,383,028).

Guarantees
The Company has provided limited guarantees to generation companies in order to provide for credit assurance and the fulfillment of obligations under the energy purchase agreements. These guarantees are not recognized on the balance sheet, because the Company believes that it will be able to comply with the provisions of these contracts, and therefore it is unlikely that the guarantees are to 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 energy purchase agreement is in place. The aggregate guarantee amount for the fulfillment guarantees amount to US$56,793,410. The Company has also issued a guarantee in favor of the ASEP in the amount of US$15,000,000 pursuant with clause 53 of the Concession Contract

The Company holds letters of credit for US$3,887,597 in favor of ETESA guaranteeing the payment of

transmission costs and energy purchases on the spot 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 concession agreement was signed on October 22, 1998 for a 15-year term. On October 22, 2012, the regulator issued the notice of convocation for the competitive process of open participation for the sale of the majority of the shares of the company. The current owner, Panama Distribution Group, S.A. ("PDG") may participate in this process, and if its bid is equal or higher than the highest bid made by other competitors, it will then retain ownership of the majority of the shares. If on the contrary, another competitor offers a higher price, then the property will be awarded to such competitor and the offered price will be given to the current owner of the shares ("PDG"). In any case, a new 15-year concession will be granted, without any payment to the Panamanian Government. On October 15, 2012, the ASEP issued Resolution No.5655, establishing that the current owners of the majority package are prequalified due to their condition of current operators of the concession. According to the timetable established by the ASEP, the reception of prequalification document was on June 2013. On August 9, 2013, PDG won the concession for 15 more years. This concession period began October 22, 2013.

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

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

As of September 30, 2014 and December 31, 2013 the Company has recorded the sum of US$696,791 (2013: US$302,198) to cover potential losses that may occur as a result of third party claims. These reserves are reported in the balance sheet under "Provision for contingencies". Following is the most representative case:

Litigations
The ASEP through Resolution AN No.3473-Elec of May 10, 2010, modified Resolution JD-5863, dated February 17, 2006, which contains Title IV of the Distribution and Commercialization Regime, which contains a provision on its article number 22, entitling the ASEP to review at the end of each rate period the maximum allowable income "IMP" approved versus actual revenue received to determine whether the variations are within a reasonable range. The variation in sales, in the amount and/or type of customer and/or the cost of supplies or labor will not be taken into consideration, in a different way to the one reflected by the IPC of the Comptroller General of the Republic. Although the procedure for calculating and adjusting any unreasonable excess has yet to be defined and established by the ASEP, the position of the Company's management is that as of March 31, 2014 there is no contingency loss to be recorded in the Financial Statements as a consequence of this particular provision under the above mentioned resolution. This conclusion is based on: i) the final outcome still in progress related to the appeal of this article filed in the Supreme Court by another power distribution company; ii) in case the regulatory entity approves a resolution to adjust any unreasonable excess, the Company has the right to file an appeal at the Supreme Court which is

an independent body and the final instance that will decide on this particular matter; and iii) there is no written nor approved procedure to calculate and adjust what could be deemed by the regulatory body as an unreasonable excess, any calculation would be highly subjective. An unfavorable resolution to that effect could have a significant negative impact on the financial statements of the Company. In spite of the above, the Resolution AN-3574-Elec dated June 25, 2010, which approved the "Maximum Allowed Income" for the July 2010 - June 2014 rate period has no adjustment related to the previous rate period (July 2006 to June 2010).

10. Fair Value of Financial Instruments

The estimated fair values of financial instruments as of September 30, 2014 and December 31, 2013 are based on the information available at the date of the balance sheet. The Company has no knowledge of any factors that may significantly affect the estimated fair values of the financial assets and liabilities such as cash, account receivables-customers, severance funds, accounts payable, short-term and long-term debt; and customer deposits. The Company uses the following methods and assumptions for estimating the disclosure of fair value of financial instruments:

Accounts Receivable, Accounts Payable, Short-Term Debt and Customer Deposits
The cumulative amount is close to the fair value because of the short maturity of those instruments.

Long-Term Debt
The fair value of long-term debt with fixed rate for the issuance of "Senior" Bonds for the amount of US$100,000,000 and the Senior Notes for US$80,000,000 has been determined with input from Level 1 using quoted prices in active markets for identical liabilities to which the Company can be accessed at the measurement date prices.

The fair value of long-term debt with variable interest rates for the issuance of corporate bonds for an amount of US$20,000,000 has been determined with input from Level 3 using a methodology of discounted cash flow based on available market information. These estimates are subjective in nature and involve uncertainties. Therefore, actual results may differ from these estimates. (See Note 6)

11. Subsequent Events

The Company evaluated all events and transactions that took place between the date of the balance sheet and the date the financial statements were issued and determined that additional disclosures were not required.