

**REPUBLIC OF PANAMA
NATIONAL EXCHANGE COMMISSION**

**AGREEMENT 18-00
(dated October 11, 2000)
Modified by Agreement No.8-2004 dated December 20, 2004**

ANNEX No. 2

**FORM IN-T
QUARTERLY UPDATE
REPORT**

Quarter ending on March 31, 2009

PRESENTED IN ACCORDANCE WITH DECREE LAW 1 DATED JULY 8, 1999, AND AGREEMENT No. 18-00 DATED OCTOBER 11, 2000.

GENERAL INSTRUCTIONS REGARDING FORMS IN-A and IN-T:

A. Applicability

These forms must be used by all issuers of securities registered with the CNV, in accordance with the provisions set forth in Agreement No. 18-00 dated October 11, 2000 (regardless if the registration is by public offering or other mandatory registrations). The Update Reports will be required as from January 1, 2001. As a result, issuers with fiscal closings in December must present their Annual Report in accordance with the ruled provided for in the aforementioned Agreement. Similarly, all interim reports of issuers with special fiscal closings (March, June, November, and others), which must be received from January 1, 2001, onward, will have to be presented in accordance with the provisions set forth in Agreement No. 18-00. However, issuers will have the option to present their reports to the Commission before said date.

B. Preparation of Update Reports

This is not a fill-in-the-blanks form. It is only a guide about the order in which information must be presented. The CNV will make the word processor File available, provided that the interested party furnishes a 3 ½ disc. In the future, the form may be downloaded from the CNV's *Internet* page.

If any information required does not apply to the issuer, given its characteristics, the nature of its business or for any other reason, such a circumstance must be expressly stated along with the reasons for which it does not apply to the issuer. Two sections of this Agreement make specific reference to Agreement No. 6-00 dated May 19, 2000 (modified by Agreement No. 15-00 dated August 28, 2000), on the Registration of Securities. It is a responsibility of the issuer to check said references.

The Update Report must be presented in an original and a complete copy, including the annexes.

A complete copy of the Update Report must be presented to the Securities Exchange, listing the securities of the issuer.

Financial information must be prepared in accordance with the provisions set forth in Agreements No. 2-00 dated February 28, 2000, and No. 8-00 dated May 22, 2000. When during the accounting periods reported there were changes in the accounting policies, acquisitions or any other form of business venture that may impact upon the comparability of the figures reported, the issuer must make clear reference to said changes and their impacts on the figures.

Should any addition clarification be required, you may contact officials from the Securities Registration National Directorate at 265-2514.

COMPANY NAME OF THE ISSUER: AES PANAMA, S.A.

SECURITIES IT HAS REGISTERED: Bonds in the amount of \$300,000,000 with due date December 21, 2016, at an interest rate of 6.35%.

TELEPHONE AND FAX NUMBERS OF THE ISSUER: (507) 206-2600 Tel.- (507) 206-2612 fax

ADDRESS OF THE ISSUER: Torre Plaza Banco General (Antigua Torre Banco Continental) Pisos 23 y 25, calle 50 y Aquilino De La Guardia; apartado postal 0816-01990 Panamá, República de Panamá.

E-MAIL ADDRESS: yandery.teran@aes.com and diego.garcia@aes.com

I PART

AES Panama, S.A. (the “Company”) was established on October 26, 1999, as a result of the merger between Empresa de Generación Eléctrica Chiriquí, S.A. (“Chiriquí”) and Empresa de Generación Eléctrica Bayano, S.A. (“Bayano”). Chiriquí and Bayano were incorporated as a corporation on January 19, 1998, as a result of the privatization and restructuring process of the electric power industry in the Republic of Panama. At the time of its incorporation the Company operated a hydro power plant with an installed capacity of 150 megawatts in Bayano, a thermal plant with a 42.8-megawatt capacity located in the Province of Panama, which went out of operation in September of 2005 and on October 18, 2006, was transferred to EGESA (Empresa de Generación Eléctrica, S.A.) which assumed all of the obligations and responsibilities over the plant as per TG transfer contract, and over the hydro power plants of La Estrella and Los Valles with an installed capacity of 42 and 48 megawatts, respectively, which are located in the Province of Chiriquí. The Bayano hydro power plant expanded its installed capacity with the installation of a third unit of 86 MW in November of 2002 and it rehabilitated and expanded the capacity of existing units from 75 MW to 87 MW, between November of 2002 and February of 2004. The Company built Esti hydro power plant with an installed capacity of 120 megawatts, located in the Province of Chiriquí, which went into commercial operation on November 20, 2003. In addition, the Company started in March 2006 the repowering of two generation units from the La Estrella and Los Valle power plants (first stage) and then in March of 2007 in its second stage the following two units, increasing their capacity from 90 to 96 megawatts, in June 2006 in its first stage and from 96 to 102 megawatts in June 2007 in its second stage, completing the repowering project. As of March 31, 2009, AES Panamá Energy, S.A. has 105,353,687 (49.00%) shares of the Company, the Republic of Panama has 108,347,536 (50.5%) shares, and the employees and former employees of the Company have 0.5% of the shares. Share sale/purchase contracts between the Panamanian State and employees were signed in July of 2003. Of the 2,993,849 (1.5%) Company shares to be transferred, only 8,539 were indeed sold in 2003.

The Company generates and sells electricity in the Panamanian electricity market, which is governed by the Public Services National Authority (formerly known as the Public Services Regulatory Agency), the entity which regulates the energy sector in the Republic of Panama.

This report is stated in thousands of US dollars (US\$), except where specified otherwise.

A. Liquidity

	March 31, 2009	March 31, 2008
Cash flow of operation-related activities		
Net Profit	14,289	11,767
Adjustments made to reconcile net profit with net cash provided by operation-related activities		
Changes in operating assets and liabilities	6,540	5,548
Changes in operating assets and liabilities	8,565	26,272
Net cash provided by operation-related activities	29,394	43,587
Net cash used in investment-related activities	(443)	144
Net cash used in financing-related activities	(15,229)	(64)
Net increase of cash	13,722	43,667
Cash on hand at beginning of the year	28,353	19,109
Cash on hand at the end of the period	42,075	62,776

Company's net cash as of March 31, 2009 and 2008, is \$42,075 and \$62,776 respectively, which represents a \$20,701 reduction with respect to the same period for the preceding year.

Net profit shows an increase, between the first quarter of 2009 and 2008, of \$2,522 due to a higher variable margin, resulting from fewer purchases on the spot market. Regarding the change in operating assets and liabilities we can see a reduction in accounts receivable to the tune of \$16,484, a reduction in accounts payable of \$8,319, net of savings in tax payment of \$6,189.

Regarding the cash flow provided by investment-related activities, we see a reduction of \$587 due to the fact that in the first quarter of 2008, properties were sold in the amount of \$558 in the Province of Chiriqui, near the Esti power plant. In 2009 no similar sales were made.

The cash flows from financing-related activities show a net reduction of \$15,165 from one period to the next, due to the payment of \$15,190 in dividends in March of 2009. Loan installment payments and repayments, as well as payments on leases payable, did not show any significant changes.

B. Capital Resources

At the close of March 31, 2009, the company did not have any significant investments.

C. Operating Results

Revenues

Sales:

Electricity sales reflect a reduction of \$2,313 as of March 31, 2009, with respect to the same period in 2008, resulting from lower revenues in the spot market. Total power generation as of March 31, 2009 was 409.26 GWh, which is 3.16% more than in the preceding year. As of March 31, 2009, the water level at Bayano dam closed at 57.69 meters, 0.02% more than in 2008 and rainfall totaled 115 mcs, 52.46% more than in the preceding year.

Below we present a comparative table showing results for the company:

Comparison of First Quarter 2009 versus First Quarter 2008.

Commercial Information	Unit	Q1 - 2009	Q1 - 2008	Var.
Energy Sales under Contract	Gwh	330.50	331.47	-0.29%
Sport Sales of Energy	Gwh	108.05	116.82	-7.51%
Spot Purchases of Energy	Gwh	29.85	51.56	-42.11%
Company Power Generation	Gwh	409.26	396.73	3.16%
System Demand (Only AES Customers)	Gwh	1,544.11	1,506.52	2.50%

Operating Information

Level at the end of the Quarter (01/04/09 @ 00: mts		57.69	57.68	0.02%
Bayano Contributions	mcs	115.28	75.61	52.46%
Bayano Power Generation	Gwh	132.30	189.74	-30.27%
Esti Power Generation	Gwh	146.69	110.08	33.26%
LE Power Generation	Gwh	63.68	47.60	33.79%
LV Power Generation	Gwh	66.59	49.31	35.04%

Spot Market Revenues

Revenues from Sales on Spot Market	K\$	14,228.63	19,903.64	-28.51%
Revenues from Purchases on the Spot Market	K\$	3,159.59	10,245.29	-69.16%

Operating costs and expenses

Purchases:

Energy purchases declined by \$7,109 between the first quarter of 2009 and the same period in 2008. This is because 29.85 GWh were purchased, that is 42.11% less than in the preceding period and because purchase prices on the spot market dropped by 44.25%.

Transmission costs:

Transmission costs show a reduction of \$160 between the first Quatre of 2009 and the same period in 2008, because of changes in the transmission rate.

Operation and maintenance:

Operation and maintenance expenses show an increase of \$159 because of the hike in expenses such as the regulation, control, and vigilante rate of ASEP; an increase in the costs of repair and maintenance as well as third party-provided services. This is net of savings in items involving salaries (departure of personal due to restructuring), overhead expenses, and insurance and performance bonds.

Administration:

The administration fee expense increased by 26% due to a higher operating profit on which it is estimated (higher variable margin).

Other revenues and expenses:

The item for other revenues shows a reduction of \$441 because in the first quarter of 2008 properties were sold in the Province of Chiriqui, near the Esti power plant, which were not realized in 2009.

Revenues from interest dropped by \$352 from one period to the next. The company had a larger profit as of March 31, 2009, compared with 2008 and also a higher availability of cash, with which it made dividend payments in March of 2009 for \$15,190, which explains the reduction in revenues from interest. Financing costs and interest-related amortization expenses do not show significant changes from one period to the next.

D. Analysis of perspectives

In accordance with the most recent projections on revenues and variable costs made by the company, the company expects to have a gross margin similar to that reach in 2008, as a result of the following factors:

1. AES Panama has approximately 87% of its production capacity contracted at fixed prices, so this part of revenues will remain the same as it was in 2008.
2. In accordance with the figures reported so far this year and its projection to December, a significant reduction in spot market prices can be observed. However, as of today this effect has been offset by a higher level of generation and sales of power on said market.

II PART**FINANCIAL SUMMARY****A. Presentation applicable to issuers from the commercial and industrial sector:**

FINANCIAL SITUATION STATEMENT	1Q09	4Q08	3Q08	2Q08
Total Sales or Revenues	41,142	49,766	59,961	58,257
Operating Margin	24,615	34,309	43,608	21,185
General and Administrative Expenses	11,459	10,429	11,322	32,081
Net Profit or Loss	14,289	19,896	26,870	12,749
Shares issued and outstanding	214,717,428	214,717,428	214,717,428	214,717,429
Profit or Loss per Share	0.07	0.09	0.13	0.06
Depretiation and Amortization	5,068	5,028	5,031	4,991
Nonrecurring Profits or Losses	-	-	-	-
GENERAL BALANCE	31-Mar-09	31-Dec-08	30-Sep-08	30-Jun-08
Current Assets	78,578	66,361	83,682	92,356
Total Assets	487,030	479,545	490,296	502,528
Current Liabilities	20,560	13,526	19,462	31,147
Long Term Debt	308,793	307,494	305,739	303,222
Preferred Stock	N/A	N/A	N/A	N/A
Paid-in Capital	154,896	154,842	154,807	154,741
Retained Earnings	3,044	3,946	10,551	13,681
Shareholders' equity total	157,677	158,525	165,095	168,159
FINANCIAL RATIOS				
Dividend / Share	0.01	0.02	0.05	0.06
Total Debt / Shareholders' Equity	2.09	2.03	1.97	1.99
Working Capital	52,835	52,835	64,220	61,209
Current Ratio	3.82	4.91	4.30	2.97
Operating Profit / Financial Expenses	5.23	7.94	9.49	4.62

**III PART
FINANCIAL STATEMENTS**

The Financial Statements for AES Panama, S.A. are attached in Annex 1.

**IV PART
FINANCIAL STATEMENTS OF GUARANTORS OR COSIGNERS**

Not applicable.

**V PART
TRUSTEE CERTIFICATION**

Not applicable.

**VI PART
DISSEMINATION**

1. Means of dissemination

On the Company's Internet portal www.aespanama.com

2. Date of dissemination

From June 1, 2009, on

SIGNATURES

Jaime Tupper
General Manager

Diego García
Chief Financial Officer for the Central America
and Caribbean Region

AES PANAMÁ, S. A.

BALANCE SHEET

MARCH 31, 2009 AND DECEMBER 31, 2008

(In thousands of United States dollars)

ASSETS	Notes	(Non Audited)		LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	(Non Audited)	
		2009	2008			2009	2008
CURRENT ASSETS				CURRENT LIABILITIES			
Cash		\$ 42,075	\$ 28,353	Loans payable	6	\$ 217	\$ 215
Account receivable				Capital lease obligations	8	55	68
Trade		1,328	1,404	Accounts payable			
Related parties, net	4	24,752	26,624	Suppliers		3,294	3,903
Affiliates	4	6,543	5,230	Related parties	4	4,031	2,250
Other		547	1,097	Affiliates	4	363	73
Inventory, net		1,846	1,874	Interest payable		5,292	529
Prepaid expenses		1,136	1,428	Income taxes payable		4,192	3,141
Deferred income taxes	12	<u>351</u>	<u>351</u>	Accrued expenses and other liabilities		<u>3,116</u>	<u>3,347</u>
Total current assets		<u>78,578</u>	<u>66,361</u>	Total current liabilities		<u>20,560</u>	<u>13,526</u>
PROPERTY, PLANT AND EQUIPMENT				LONG-TERM LIABILITIES			
Land		5,702	5,702	Seniority premiums payable	10	308	292
Buildings		261,576	261,498	Loans payable	6	2,164	2,221
Electricity generation facilities		318,362	318,272	Bonds payable, net	7,13	297,967	297,915
Office furniture and equipment		5,765	5,734	Capital lease obligations	8	35	6
Transportation equipment		992	992	Deferred income taxes	12	<u>8,319</u>	<u>7,060</u>
Less accumulated depreciation		(199,183)	(194,147)	Total long-term liabilities		<u>308,793</u>	<u>307,494</u>
Construction in progress		<u>258</u>	<u>91</u>	Commitments and contingencies	9		
Total property, plant and equipment		<u>393,472</u>	<u>398,142</u>				
OTHER ASSETS				STOCKHOLDERS' EQUITY			
Trust fund	5,7	9,831	9,811	Common stock, authorized 215,007,525 shares no par value.			
Deferred financing cost, net	7	4,141	4,247	Outstanding 214,717,428 shares in 2008 and 2007			
Others		<u>1,008</u>	<u>983</u>	Treasury stock, 290,097 in 2008 and 2007		142,331	142,277
Total other assets		<u>14,980</u>	<u>15,041</u>	Additional paid-in capital		(263)	(263)
				Retained earnings		12,565	12,565
				Prepaid dividend tax		3,044	3,945
				Total stockholders' equity		<u>157,677</u>	<u>158,524</u>
TOTAL ASSETS		<u>\$ 487,030</u>	<u>\$ 479,544</u>	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$ 487,030</u>	<u>\$ 479,544</u>

The accompanying notes are an integral part of these financial statement

AES PANAMÁ, S. A.**STATEMENTS OF INCOME****From January 01 to March 31, 2009 and 2008 (Non Audited)**

(In thousands of United States dollars)

	Notes	2008	2007
ELECTRICITY SALES	4	<u>\$ 41,142</u>	<u>\$ 43,455</u>
OPERATING COSTS AND EXPENSES:			
Purchase of electricity	4	3,282	10,391
Transmission costs	4	3,185	3,345
Operating and maintenance expenses		3,691	3,850
Depreciation and amortization		5,068	4,984
Management Fee	4	<u>1,301</u>	<u>1,034</u>
Total operating costs and expenses		<u>16,527</u>	<u>23,604</u>
OPERATING INCOME		24,615	- 19,851
OTHER INCOME (EXPENSES)			
Interest income		132	484
Amortization of deferred financing cost		(105)	(99)
Interest expenses		(4,889)	(4,884)
Other income	11	<u>157</u>	<u>598</u>
Income before income taxes		19,910	- 15,950
Income taxes	12	<u>5,621</u>	<u>4,183</u>
NET INCOME		<u>\$ 14,289</u>	<u>\$ - \$ 11,767</u>

The accompanying notes are an integral part of these financial statement

AES PANAMÁ, S. A.**STATEMENTS OF STOCKHOLDERS' EQUITY****For the month ended March 31, 2009**

(In thousands of United States dollars)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Prepaid dividend Tax	cciones € Tesorería	Total Stockholders' Equity
BALANCE AT DECEMBER 31, 2007	\$ 142,060	\$ (263)	\$ 12,565	\$ 25,164	\$ -	#REF!	\$ 179,526
Net Income	-	-	-	71,282	-		71,282
Dividends paid	-	-	-	(92,500)	-		(92,500)
Capital increase	217	-	-	-	-		217
BALANCE AT DECEMBER 31, 2008 (Audited)	\$ 142,277	\$ (263)	\$ 12,565	\$ 3,945	\$ -	#REF!	\$ 158,524
Net Income	-	-	-	14,289	-		14,289
Dividends paid	-	-	-	(15,190)	-		(15,190)
Capital increase	54	-	-	-	-		54
BALANCE AT MARCH 31, 2009 (Non Audited)	\$ 142,331	\$ (263)	\$ 12,565	\$ 3,044	\$ -		\$ 157,677

The accompanying notes are an integral part of these financial statement

AES PANAMÁ, S. A.**STATEMENTS OF CASH FLOWS****From January 01 to March 31, 2009 and 2008 (Non Audited)**

(In thousands of United States dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	\$ 14,289	\$ 11,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,068	4,984
Gain on disposal of fixed assets	-	(479)
Deferred income taxes	1,259	857
Amortization of deferred financing costs	107	99
Bond discount	52	48
Capital increase	54	39
Changes in operating assets and liabilities:		
Decrease (increase) in account receivable	1,184	17,668
(Increase) decrease in inventory	28	(15)
(Increase) decrease in prepaid expenses	292	447
(Decrease) in account payable	1,462	9,781
(Decrease) increase in income taxes payable	1,051	(6,152)
(Decrease) in interest payable	4,763	4,673
Increase (decrease) in accrued expenses and other liabilities	(231)	(121)
Increase in seniority premiums payable, net from payments	<u>16</u>	<u>(9)</u>
Net cash provided (used in) by operating activities	<u>29,394</u>	<u>43,587</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(231)	(257)
(Decrease) in construction in progress	(167)	(46)
Proceeds from sales of assets	-	558
(Decrease) increase in trust fund	(20)	(92)
Other Long Term Asset	<u>(25)</u>	<u>(19)</u>
Net cash provided (used in) by investing activities	<u>(443)</u>	<u>144</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan payments	(55)	(33)
Capital lease obligation payments	16	(31)
Dividend paid	<u>(15,190)</u>	<u>-</u>

Net cash used in financing activities	<u>(15,229)</u>	<u>(64)</u>
NET INCREASE IN CASH	13,722	43,667
CASH AT BEGINNING OF THE YEAR	<u>28,353</u>	<u>19,109</u>
CASH AT END OF THE YEAR	<u>\$ 42,075</u>	<u>\$ 62,776</u>
SUPPLEMENTARY DISCLOSURES		
Cash payments for interest	<u>\$ 126</u>	<u>\$ 121</u>
Cash payments for income tax	<u>\$ 3,312</u>	<u>\$ 9,500</u>

AES PANAMÁ, S.A.

Financial statements

For the month ended March 31, 2009 (Unaudited) and the year ended December 31, 2008 (Audited)

AES PANAMÁ, S.A.

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AES PANAMA, S.A.

Report of the Administration

AES Panama, S.A.
and its Shareholders and Board of Directors

The enclosed balance sheet from AES Panama, S.A., as of March 31, 2009 and 2008 and the corresponding statements of income, stockholders' equity and cash flows for each period ended on March 31, 2009 and 2008, have been prepared from the unaudited accounting records of the Company and consequently they could be subject to adjustments and / or reclassifications. All the information included in these interim financial statements is the representation of the Administration of AES Panama, S.A.

In our opinion, the above mentioned financial statements represent reasonably, in all the important aspects, the financial situation of AES Panama, S.A. as of March 31, 2009 and 2008 and the results in operations, change in stockholders' equity and cash flow as of March 31, 2009 and 2008 in accordance with Generally Accepted Accounting Principles of the United States of America.

Jaime Tupper
General Manager

Katiusca Vasquez
CPA # 0298-2007

Panama, Republic of Panama
March 31, 2009

AES PANAMÁ, S.A.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

(In thousands of United States of America dollars)

1. GENERAL INFORMATION

AES Panamá, S.A. (the Company) was incorporated on October 26, 1999 as a result of the merger of Empresa de Generación Eléctrica Chiriquí, S.A. (Chiriquí) and Empresa de Generación Eléctrica Bayano, S.A. (Bayano). Chiriquí and Bayano were incorporated as a company on January 19, 1998 in connection with the privatization and restructuring of the Panamanian energy industry. At the time of its acquisition, the Company operated a hydroelectric power plant with an installed capacity of 150 megawatts in Bayano, a thermal power plant with a capacity of 42.8 megawatts located in Panama City (which was shut down in 2005 and transferred to Empresa de Generación, S.A who assumed all the obligations and responsibilities of the plant on October 18, 2006 as established under the transference contract), and the hydroelectric power plants of La Estrella and Los Valles with an installed capacities of 42 and 48 megawatts, respectively, located in the Province of Chiriquí. In February 2004 the Bayano plant completed, the expansion of two existing units increasing their total capacity from 75 to 87 megawatts, and the construction of a third unit of 86 megawatts. On November 20, 2003 the Company completed the construction of the Estí hydroelectric plant with an installed capacity of 120 megawatts, located in the Province of Chiriquí. Additionally, in March 2006 the Company began the repowering project of La Estrella and Los Valles increasing capacity in these plants to 45 and 51 megawatts, respectively, on June 2006 and on June 2007 they were once again increased to 48 and 54 megawatts, respectively with the culmination of the repowering project with a total capacity of 482 megawatts.

As of March 31, 2009 AES Panamá Energy, S.A. owned 105,353,687 (49.0%) shares of the Company, the Republic of Panama owned 108,347,536 (50.5%) shares of the Company, and the employees and ex-employees of the Company owned 1,016,205 (0.5%) of the shares.

The Company generates and sells electricity in the Panamanian electric system, which is regulated by the Authority of Public Services (formerly Entity of Public Services), the supervising government agency that oversees the energy sector in the Republic of Panama. Approximately 87% of the firm capacity of the plants in operation is contracted to date under several power purchase agreements with the distribution companies and larger consumers in the Republic of Panama. The excess capacity was sold to the Long Term special service of auxiliary reserve. These agreements have an average duration of one to ten years. Excess energy is sold in the spot market at the prevailing tariffs.

2. BASIS OF PRESENTATION

Explanation for translation into English - The accompanying financial statements have been translated from Spanish into English for use outside of the Republic of Panama.

These financial statements are presented in conformity with generally accepted accounting principles in the United States of America ("US GAAP"). Certain accounting practices applied

by the Company that conform with US GAAP may not conform to accounting principles generally accepted in the country of use.

The accounting records are maintained in Balboas, the official currency of the Republic of Panama, the country where the Company operates. The Balboa is at par and is free to be exchanged with the US dollar. The Republic of Panama does not issue paper currency and in its place used the US dollar as legal tender.

The financial statements and notes are presented in thousands of United States dollars (US\$ of America), unless otherwise indicated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting policies of the Company are summarized as follows:

- a. **Cash** - The Company considers as cash, cash on hand, deposits on current and saving accounts and time deposits which initial maturity date are no longer than thirty days.
- b. **Inventories** - Inventories, consisting mainly of materials, spare parts, are valued at the lower of cost or market value. Cost is determined using the first-in, first-out method. Inventories include an allowance for obsolescence of \$146 as of March 31, 2009 and December 31, 2008.
- c. **Property, plant and equipment** - Property, plant and equipment are recorded at acquisition cost less accumulated depreciation. Cost includes major expenditures for improvements and replacement, including critical replacement parts for the turbine generator units, which extend useful lives or increase capacity and interest cost associated with significant capital additions. Maintenance and repair costs are charged to expenses as incurred. When assets are sold or retired, the corresponding cost and accumulated depreciation are removed, and the resulting gain or loss is shown in the income statement.

Depreciation is estimated based on the useful life of the corresponding assets using the straight-line method. The rates for depreciation used are based on the estimated useful lives of the assets as shown below:

Buildings	30 to 50 years
Dams	30 to 50 years
Generation equipment (including spare parts and materials)	15 to 50 years
Electrical equipment	5 to 50 years
Transmission equipment	35 years
Office furniture and equipment	3 to 20 years
Vehicles	3 to 8 years

- d. **Construction in progress** - Payments for projects under construction, including salaries, engineering, interests, insurance and other capitalizable costs. Balances of construction in

progress are transferred to electricity generation facilities when the assets are ready for their intended use.

Stock Plans - Certain of the Company's employees were granted stock options under option plans created by The AES Corporation ("the AES Plans"). The AES Plans allow issuance of options to purchase common stock of The AES Corporation at a price equal to 100% of the market price at the date the option is granted. Generally, stock options issued under these plans become exercisable by employees one year from the grant date (100% in one year), and others vest over three years from the date of grant (33% each year).

- e. **Deferred financing costs** - The Company defers all costs related to the issuance of long-term debt. These costs include borrowers' commissions and other costs such as legal, registration and stamp costs. Debt issuance costs are amortized over the term of the debt using the effective interest method.

During the construction period, the deferred financing costs are included as part of the construction in progress.

- f. **Revenue recognition and concentration** - Revenues from the sale of electricity are recognized based on output delivered to clients according to the monthly liquidations prepared by the National Dispatch Center of the Republic of Panama, considering rates and kilowatts specified under contract terms. For the month ended March 31, 2009 and 2008, substantially all revenues were derived from five customers represented by three distribution companies and two generation companies that operate in the Republic of Panama and from four big clients represented in the Panamanian electric market by AES Panama (Importadora Ricamar, Business Park, Mega Depot and Cemento Panama).

The interest income is periodically accumulated taking in consideration the principal balance and the interest rate applicable.

- g. **Income tax** - Deferred income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured based on the application of enacted tax rates to taxable income in the years in which those temporary differences are expected to reverse. The company establishes a valuation reserve when is most possible that not, that all or a portion of the deferred tax assets will not be used.

The Company uses the direct method for recognition of investment tax credits for the acquisition of qualifying assets. Under this method, investment tax credits are reflected as a reduction in the income tax of the year in which the corresponding certification is granted according to the enacted tax regulation. The associated deferred tax asset is reduced against the income tax payable based on the utilization of the benefit of 25% of income tax each year.

- h. **Long-lived assets** - In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-lived Assets”, the Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. The carrying amount of an asset is not recoverable when the estimate future undiscounted cash flows expected to result from the use of the asset are less than the carrying value of the asset. The Company measures an impairment loss as the difference between the carrying value of the asset and its fair value.
- i. **Use of estimates** - The presentation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the balances and amounts of the assets, liabilities and results, as well as the disclosures of contingent assets and liabilities. Actual results may differ from these estimations. The most important estimates are the useful life of the long-lived assets and calculation of potential disputes and claims.
- j. **New accounting standards - SFAS 157** - In September 2006, the FASB issued the pronouncement No.157, "Fair Value Measurements" (SFAS No.157), which defines fair value, establishes a framework for measuring it, and expands disclosures about measurement fair value. In February 2008, the FASB issued FSP No. 157-2, which delays the effective date of SFAS No. 157 for all measurements to non-recurring fair value for financial assets and liabilities for tax periods subsequent to 15 November 2008 or January 01, 2009 for the company. In February 2008, the FASB also issued FSP No. 157-3, which clarifies the application of SFAS No. 157 in inactive markets and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that asset is not active. The guide emphasizes that the determination of fair value in an inactive market depends on facts and circumstances and may require the use of important judgments. The FSP No. 157-3 is effective from its pronouncement, including prior periods for which no financial statements have been issued, so it was effective for the company at September 30, 2008.

In accordance with SFAS No. 157, the Company applied the fair value of the following hierarchy:

- Level 1 - Assets and liabilities for which an identical instrument is traded in an active market, such as publicly traded instruments, or futures contracts.
- Level 2 - Assets and liabilities that are valued based on observable market course for similar instruments, market price quotations which are not assets, or other assumptions that are observable and can be corroborated by information available to market substantially all of the time assets and liabilities.
- Level 3 - Assets and liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued using the best available information, some of which are developed internally, and consider the risk premium

to a market participant required.

- k. Uniformity in the presentation of Financial Statement* - Some of the amounts of the 2008 Financial Statements have been reclassified in order to be agree with the presentation of the current period ended March 31, 2009.

4. BALANCES AND TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

The Panamanian Government owns a significant investment in the generation, distribution and transmission companies in the electric power industry in Panama. Consequently, all the transactions between the Company and such companies are considered transactions with related parties.

The Company has entered into contracts with distribution companies and wholesale clients, to supply energy and capacity. For 2008, the Company maintains 87% of its firm capacity under contract; 99% for 2009; 82% for 2010; 62% for 2011, 83% for 2012, 92% for 2013, 88% from 2014 through 2018; 40% from 2019 through 2020; 29% for 2021 and 9% for 2022. The electricity sales include approximately \$26,312 and \$28,607 of revenues related to such contracts and on the spot market for the month ended March 31, 2009 and 2008 respectively. From time to time, the Company purchases energy in the spot market to meet its contractual requirements. The amounts related to those transactions were \$1,246 and \$3,690 for the month ended March 31, 2009 and 2008, respectively.

In addition, the Company incurred in expense for the use of the transmission lines for \$3,185 and \$3,345 for the moth ended March 31, 2009 and 2008 respectively.

During 1999, the Company entered into an administration contract for 20 years with AES Panama Energy, S.A. This contract provides for a fee equivalent to 5% of income before depreciation, interest and taxes for the first five years and of 4% of income before depreciation, interest and taxes from the sixth to the tenth year. Total fees amounted to \$1,301 and \$1,034 for the month ended March 31, 2009 and 2008, respectively.

As of March 31, 2009 and 2008, the employees, that were also shareholders of the Company received compensation of \$691 and \$617, respectively.

The Company maintains a Development and Construction Management Advisory Service Agreement with an affiliate company and at March 31, 2009 and 2008 had received payments for the total amount of \$55 and \$63. The account receivable is included in the accompanying balance sheets.

5. FUNDS IN TRUST

In December 2006 the Company issued senior notes (issued under Rule 144A/Reg S) in the international and national market in the amount of US\$300,000 in order to repay principal, interest and other costs related to US\$320,000 financing completed in 2003.

The new financing arrangement established in the new debt for \$300,000 a trust account defined as the “Debt Services Reserve Account”. This Trust Fund has been set up by AES Panama, S.A. as Trustor, and HSBC Bank USA, National Association as Trustee and Collateral Agent, has the general purpose of establishing a cash fund to secure the obligation for payment of interest. The amount held in this account as are \$9,831 and \$9,811 for March 31, 2009 and December 31, 2008 respectively.

6. LOANS PAYABLE

The loans payable as of March 31 2009 and December 31, 2008, are as follow:

	(Non Audited)	
	31-Mar <u>2009</u>	31-Dec <u>2008</u>
Banco General, S.A.:		
Mortgage loan guaranteed with a first mortgage on properties owned by the Company, maturing on November 2018 at an interest rate according to the LIBOR market plus 2.75% to be reviewed every 3 months.	\$ 1,225	\$ 1,246
Mortgage loan guaranteed with a first mortgage on properties owned by the Company, maturing on September 22, 2017 at annual interest rate of 7%	1,156	1,190
	<u>2,381</u>	<u>2,436</u>
Less current portions	<u>217</u>	<u>215</u>
Long-term loans, excluding current portions	<u>\$ 2,164</u>	<u>\$ 2,221</u>

7. BONDS PAYABLE, NET

On December 21, 2006 the company refinanced the \$320,000 debt with the new credit of facility for \$300,000. This facility was underwritten and distributed by Credit Suisse and UBS Investment Bank. The Company paid a cost of \$5,024 for the issuance of this bond, which have been deferred and will be amortized during the term of the debt contract. The net deferred financing costs were \$4,141 and \$4,247 for the months ended March 31, 2009 and 2008 respectively.

For this facility the Company issued senior notes in an aggregate principal amount of \$300,000 (issued under rule 144A/Reg S) into the international and national markets. These notes have 10 year bullet maturity, with one principal payment due in December 2016. The notes have a coupon rate of 6.35% and pay interest semi-annually. The Company shows in the balance sheet the debt securities for \$298,000 net of unamortized discount that should be amortized under the effective interest rate method, according to APB 21.

The bonds payable were issued under an indenture, among AES Panama, S.A. and HSBC Bank USA, National Association as indenture trustee.

The most significant covenants of the new debt are as follows:

- The Company must maintain a “Debt Service Reserve Account” with funds deposited and available to secure the semi-annual interest payment.
- Limitation on certain indebtedness:
 - (a) Outstanding bankers’ acceptances, letter of credit and other indebtedness should not exceed \$20,000 outstanding at any one time.
 - (b) Enter into outstanding lease contracts that exceed \$10,000 at any time.
- Limitation on sales of assets of generation
- Audited financial statements should be delivered to Indenture Trustee, within 120 days after the end of each fiscal year.

As of March 31, 2009 and 2008, bonds payable is as follows:

	(Non Audited)	
	31-Mar <u>2009</u>	31-Dec <u>2008</u>
Bond	\$ 300,000	\$ 300,000
Discount	<u>(2,033)</u>	<u>(2,085)</u>
Bond payable, net	<u>\$ 297,967</u>	<u>\$ 297,915</u>

The amortization of the discount is included in interest expenses in the accompanying statements of income.

8. CAPITAL LEASE OBLIGATIONS

The Company has entered into capital lease obligations for transportation equipment that expire in 48 months from December 2006. The present value of the future minimum lease payments as of March 31, 2009 and December 31, 2008 are summarized below:

	(Non Audited)	
	31-Mar <u>2009</u>	31-Dec <u>2008</u>
Up to a year	\$ 59	\$ 71
From one to four years	39	5
Total future minimum payments	98	76
Less interest (from 7.5% to 8.0% per annum)	8	2
Present value of future minimum lease payments	90	74
Less current portion of the obligations under leasing	55	68
Obligations under leasing excluding current portion	<u>\$ 35</u>	<u>\$ 6</u>

The depreciation for the assets under leasing is included under the depreciation expense.

9. COMMITMENTS AND CONTINGENCIES

Commitments

Sale – Purchase Energy Contracts

The Company has certain obligations related to its concession and electricity purchase contracts. The Company has guarantees for \$30,000 to cover the obligations arising from those contracts. The Company also has guarantees for \$28,000 in favor of the Government of the Republic of Panama for the concession to harness the hydroelectric potential that in turn generates electricity.

In March 09, 2007, the Company signed with AES Changuinola, S.A. a Sale-Purchase Energy and Firm Capacity Contract for a period of ten years (2011 to 2020). The firm capacity price is of \$1.00/kW-month and the energy price \$0.0787/kWh.

During 2009, the Company haven't signed new contracts for the sale of energy.

Concession Contracts

The Company has acquired the water concession contracts of fifty years which give certain rights, including the generation and sale of electricity produced by hydroelectric plants and water rights for the use of rivers Bayano, Chiriquí, and Los Valles Caldera. The Company is required

to manage, operate and maintain the plants during the term of the contracts. This term may be renewed for additional fifty years are subject to prior approval by the ERSP.

The most important terms of the water concession contracts signed between the company and the regulator of Public Utilities (now the National Authority of Public Services - ASEP -) below:

- The ASEP gives the company a concession for hydropower generation through the exploitation of hydroelectric development located on rivers Bayano, Chiriquí, and Los Valles Caldera.
- The Company is authorized to provide the public service of electricity generation, which includes the operation and maintenance of power generation plants, with their respective lines to the transmission and transformation equipment, to produce and sell in the national electricity system and make sales of energy.
- The term of validity of each of the concessions has a term of fifty (50) years. The same may be extended for up to fifty (50) years upon application to the ASEP.
- The Company shall have the right to own, operate and maintain the assets of the complex and make improvements on them. Will require prior approval in cases where the Company increases the ability of any of the plants at 15% or more in one place.
- The Company shall have the free availability of property and assets of the complex.
- The Company shall have the rights to the property and rights of way or passage within the hydroelectric can perform all activities necessary for the generation and sale of hydroelectric power. Likewise, the Company will also have the right of way or access to the areas of hydroelectric currently enabled and in use.
- The Company may require the compulsory acquisition of property and the creation of easements in their favor as stipulated in the Act and its regulations No.6.

Contingencies

The Company is involved in several legal actions in the normal course of business. It is the opinion of the Company that none of the pending claims will have a material adverse effect on its results of operations, financial position or cash flows.

The Company may be exposed to environmental costs in the ordinary course of business. Liabilities are recorded when environmental impact studies indicate that remedial measures are required and costs can be reasonably estimated. The estimated liabilities are based on currently available facts, existing technology and existing laws and regulations, taking into account the likely effects of inflation and other economic and social factors, including estimated legal costs associated. At March 31, 2009 and December 31, 2008 there are no known environmental liabilities.

In the Caja de Seguro Social Resolution No.964-2007 D.G. dated November 22; was stated that the company will have to pay amounts in concept of social security tax and professional risk for

a total amount of \$317. The total amount of this Resolution was paid on September 28, 2007 but actually the lawyers of the company are asking for a reconsideration process. The Company considers that the 78% of this payment can become a credit amount if the court gives a favorable resolution.

10. RETIREMENT PLANS AND SENIORITY PREMIUMS

According to Panamanian labor law, the Company is required to contribute to a severance fund to cover payments and seniority premium of employees upon retirement or termination. Contributions are based on 1.92% for the seniority premium and 0.32% for severance, on remunerations paid to employees. This severance fund must be deposited and administered by an authorized private certified institution.

In addition, the Company sponsors a defined contribution savings plan available to all its employees. The Company makes contributions for up to 5% of the annual salary, in addition to the possibility of discretionary contributions from the employees. Contributions to the plan are restricted for a period of 10 years. The Company contributed \$27 and \$21, to the plan during the months ended March 31, 2009 and December 31, 2008 respectively.

The Company also offers to its employees a bonus in the form of shares of The AES Corporation. These shares are deposited in a Trust Fund denominated “Non-contributing Private Pension Plant” and it is managed by an authorized third party that maintains individual accounts for each employee. Contributions to this plan are subject to Board of Directors’ decisions and are calculated based on a percentage of the salary of every permanent employee. Provision for this contribution was \$70 and \$48 as of March 31, 2009 and respectively.

11. OTHER INCOME

For the months ended March 31, 2009 and 2008 miscellaneous income is detailed as follows:

	(Non Audited)	
	2009	2008
Rent	\$ 38	\$ 110
Gain on disposal of fixed assets	-	479
Other	<u>119</u>	<u>9</u>
	<u>\$ 157</u>	<u>\$ 598</u>

Other income includes reversions of expire liabilities.

12. INCOME TAX

For the months ended March 31, 2009 and 2008 the provision for income tax consists of the following:

	(Non Audited)	
	2009	2008
Current	\$ 4,363	\$ 3,326
Deferred	<u>1,258</u>	<u>857</u>
	<u>\$ 5,621</u>	<u>\$ 4,183</u>

As of March 31, 2009 and December 31, the deferred income tax asset and liability was comprised as follows:

	(Non Audited)	
	31-Mar 2009	31-Dec 2008
Deferred tax assets:		
Provision for obsolescence	\$ 44	\$ 44
Expense provisions	307	307
Total current deferred tax assets	351	351
Deferred tax assets LT		
Difference in the tax base of generation assets	<u>1,840</u>	<u>1,851</u>
	1,840	1,851
Investment tax credit	-	-
Total Current and LT deferred tax assets	2,191	2,204
Deferred tax assets	<u>\$ 2,191</u>	<u>\$ 2,202</u>
Deferred tax liabilities:		
Accumulated depreciation over assets of investment tax credit	\$ 6,047	\$ 6,107
Accelerated depreciation	\$ 1,324	\$ -
Accumulated depreciation of donation to the government	<u>2,787</u>	<u>2,806</u>
Total deferred tax liabilities	<u>\$ 10,158</u>	<u>\$ 8,913</u>

A summary of the activity for the months ended March 31, 2009 and December 31, 2008, of the deferred tax asset resulting from deductible temporary differences is as follows:

	(Non Audited)	
	31-Mar <u>2009</u>	31-Dec <u>2008</u>
Beginning balance	\$ 2,203	\$ 2,094
Decrease during the period/year	<u>(12)</u>	<u>(110)</u>
Ending balance	<u>\$ 2,191</u>	<u>\$ 2,204</u>

Law No. 28 dated June 20, 1995 that was in enacted until 2000, enabled companies that invest in technology to be granted investment tax credits. An independent qualified technical institution must certify that the assets qualify for this tax incentive consisting of a fiscal credit of 25% over the income tax in any given fiscal year. The tax credit is applicable until full amount of the investment is utilized.

As of February 3, 2005, effective date of Law No.6 of February 2, 2005, states change in the percentage of application of credit for investment from 25% to 5%, but Company is not subject to this tax law, as it is registered with the stable legal status to investments for a period of 10 years from May 28, 1999. This scheme allows you to maintain the application of 25% credit for investment.

This benefit was fully utilized at December 31, 2008 and a summary of its activity is shown below:

	2008
Balance at the beginning of the year	\$ 5,297
Applied during the year	<u>5,297</u>
Balance at the end of the year	<u>\$ -</u>

As of March 31, 2009 and December 31, 2008, the liability for deferred income tax comprises tax benefits of the infrastructure grant to the Government of Panama which was deductible for tax purposes in the year they were incurred, whereas for financial purposes be depreciated over the life of the asset.

	(Non Audited)	
	31-Mar <u>2009</u>	31-Dec <u>2008</u>
Balance at the beginning of the year	\$ 8,913	\$ 9,384
Reduction during the year	<u>1,245</u>	<u>471</u>
Balance at the end of the year	<u>\$ 10,158</u>	<u>\$ 8,913</u>

FIN No. 48 requires that the Company recognize the impact on the financial statements of tax positions comply with the limitation that "more likely than not." When evaluating players for this limit, the Company must evaluate whether the tax position can be sustained based solely on its technical merits in the case of an inspection by the tax authority. The interpretation requires that the Company establishes liabilities to reflect the portion of these positions that can not be concluded that "more likely than not" to be performed in front of his ultimate final settlement. Referred to them as a liability for unrecognized tax benefits under FIN No. 48. In adopting this interpretation, the Company identified and assessed any potential uncertain tax positions and concluded that there are no uncertain tax positions requiring recognition in financial statements. The administration hopes that the tax authorities allow these positions to be inspected and have a high level of confidence in the technical merits of these positions. Consequently, management expects that the total amount of the fiscal position is finally done and recognized in the financial statements.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

As mentioned in Note 3 (j) Summary of Accounting Policies The Company adopted the Financial Accounting Standards SFAS No. 157 fair value and SFAS No. 159. In certain circumstances the fair value allows greater alignment between financial performance with the market value of assets or liabilities covered or actively traded. The fair value can not mitigate the volatility caused by financial assets and financial liabilities are recorded on different bases.

The Company established a process for determining fair value. The determination of fair value considers the quoted price of the market, but in many instances, they do not pay market prices for various financial instruments of the Company. In cases where the market price is not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and future cash flows.

(a) *Financial instruments approximate book value to fair value*

The carrying value of certain financial assets, including cash, accounts receivable, accounts receivable and certain related liabilities including accounts payable, accounts payable related to the nature of short maturity, is considered equal to its fair value and classified at level 1 of the fair value hierarchy.

(b) *Bonds Payable*

The estimated fair value at March 31, 2009 and December 31, 2008 are based on information available at the balance sheet date. The Company is not aware of any factors which may significantly affect the estimated fair value at that date. For bonds payable with a fixed rate, fair value is estimated using an analysis of discounted cash flow based on increasing rates of current loans of the Company and they are classified at level 1 of the fair value hierarchy.

	(Non Audited)		31-Dec	
	31-Mar		2008	
	2009			
	Book Value	Fair Value	Book Value	Fair Value
Financial liabilities:				
Medium and long term obligations and placements	<u>\$ 297,767</u>	<u>\$ 251,160</u>	<u>\$ 297,915</u>	<u>\$ 251,160</u>

* * * * *