FITCH AFFIRMS ELEKTRA NORESTE'S IDRS AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-San Jose-09 August 2011: Fitch Ratings has affirmed Elektra Noreste, S.A.'s (Elektra, also known as ENSA) foreign and local currency Issuer Default Ratings (IDRs) at 'BBB'. The rating action affects approximately USD$100 million of debt outstanding due 2021. The Rating Outlook is Stable.

Elektra's ratings are based on its strong financial position, stable cash flow generation and low business risk profile, which is characteristic of electric distribution companies. Cash flow stability is positively incorporated into the rating as it lowers business risk and adds to certainty. Elektra's ratings also incorporate the company's exposure to regulatory risk, which is considered modest as the Panamanian electricity regulator operates independently from the central government. This has allowed for a regulatory framework that balances the needs of final users with those of the distribution companies.

SOLID CREDIT METRICS:
Elektra's financial profile is solid with investment-grade credit protection measures. As of the last 12 months (LTM) ended March 31, 2011, the company reported a total debt-to-EBITDA ratio of 2.0 times (x), which is considered in line with the rating category. The company leverage as measured by total debt-to-EBITDA remains stable as additional EBITDA is reinvested into the business. Total debt is comprised of USD$100 million in senior unsecured notes expiring in 2021 and USD$20 million in unsecured and unsubordinated corporate bonds expiring in 2018. The company uses short-term debt, from time to time, to finance working capital needs. Going forward, Fitch expects leverage ratio remain around 2.0x and 2.5x.

The company generates stable and predictable cash flows. EBITDA has increased over the past four years to approximately USD$58 million as of year-end 2010 from approximately USD$44 million in 2006. This increase has been primarily driven by tariff adjustments, increase in demand and gains in operating efficiencies. Elektra's interest coverage improved to 6.7x as of year-end 2010 from 5.7x in 2009 due to the higher EBITDA generation and lower interest expense due to lower short-term usage.

The company's liquidity position is considered adequate for the rating category. Liquidity levels measured as cash from operations to debt was 43.1% for the LTM period ended March 2011 (55.7% year ended 2010), which compares favorable with the 2009 - 2007 average of 21.3%. The company reported cash on hand as of March 2011 of USD$3.4 million. Elektra's liquidity position and access to financing is also supported by its lines of credit that currently amount to USD$97.5 million.

LOW BUSINESS RISK PROFILE:
Elektra's credit profile is supported by its natural monopoly position. Elektra's concession is exclusive with well-defined boundaries mitigating competitive pressures. The company's distribution tariffs are based on a price-cap methodology with the value added of distribution (VAD) reset every four years. Tariffs are adjusted on a monthly basis to pass-through the effect of fuel price changes and, on semiannual basis, to reflect changes in the Panamanian consumer price index (CPI). The company is also exposed to receipt of government subsidies and high energy costs, as the later require great working capital needs.

The concession has a term of 15 years and expires in October 2013. One year before the expiration of the concession process, the Panamanian public services regulator, Autoridad Nacional de Servicios Publicos (ASEP) will carry out an open public bid for the sale of the shares currently owned by Panama Distribution Group. The result of the bid will determine if Panama Distribution Group S.A. will continue to own their share participation. This the first time this process will take place since the restructuring of the electricity sector of Panama in 1998. Fitch will continue to monitor the outcome of this bid process.

Since March 2011, Empresas Publicas de Medellin E.S.P. (EPM), rated 'BBB-' by Fitch, owns 51% of Elektra and controls the company. EPM purchased this stake in the company from AEI and the transaction is not believed to have a material impact on Elektra Norestes' credit quality. Elektra's business plan as well as its financial profile has not changed following the purchase. Elektra's indicators remain in line with the rating category and Fitch expects no significant changes in the company's strategy.

MODERATE REGULATORY RISK:
Elektra's exposure to regulatory risk is considered moderate. The company has been subject to receipt of government subsidies, which in general have been modest and payment timely. During 2010, total subsidies received from the Panamanian government amounted to USD$51.5 million. Elektra's exposure to fuel price increases through power purchases agreements (approximately 60% of contracts with thermoelectric generation companies) have increased the receipt of government subsidies aimed to diminish tariff increases during 2011. The subsidy could reach approximately USD$106.0 million, which includes base tariff adjustments as well as fuel variation costs. Should the government's subsidies increase and/or be delayed, the company's working capital needs will increase and its credit quality could be affected.

Elektra's ratings are not constrained by the 'BBB' sovereign rating of Panama as access to foreign exchange — a key determinant of external creditworthiness — is not limited by finite foreign exchange reserves or exchange controls. Panama's track record of using the U.S. dollar and allowing private-sector debt repayment during periods of sovereign default allows entities in Panama to be rated to its country ceiling of 'A', based on the underlying corporate credit rating of the entity.

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Applicable Criteria and Related Research:
Rating Latin American Utilities, Power, Gas, and Water Companies
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Corporate Rating Methodology - Amended
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