Fitch Ratings

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

Fitch Ratings-San Jose-10 September 2010: Fitch Ratings has affirmed Elektra Noreste, S.A.'s foreign and local currency Issuer Default Ratings (IDRs) at 'BBB'. The rating action affects approximately USD100 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.

TARIFF RESET SUPPORTS CREDIT FUNDAMENTALS:
The new tariff reset approved for the next four years starting in July 1st 2010 increased Elektra's maximum allowed income (MAI), which supports the company's credit profile. The company was granted a USD442 million MAI for this period, which will increase its EBITDA by USD10 - USD15 million to approximately USD65 million on average. The company's distribution tariffs are based on a price-cap methodology with the value added of distribution (VAD) reset every four years by the regulator.

The tariff revision also adds an incremental capital expenditure program, including regulatory as well as other maintenance investments. Elektra is expected to allocate an average of USD36 million per year for capital investments over the next four years. Stronger cash flow generation derived from new tariffs coupled with increasing energy demand will strengthen the company's interest coverage ratios, which could range between 6.0 times (x) and 6.5x. Nevertheless, Elektra's leverage ratio as measured by total debt-to-EBITDA would likely remain stable over the next few years as additional EBITDA is reinvested into the business.

SOLID CREDIT METRICS:
Elektra's financial profile is solid with investment-grade credit protection measures. As of the last 12 months (LTM) ended June 30, 2010, the company reported a total debt-to-EBITDA ratio of 2.1x, down from the 3.2x reported during 2008. Total debt is comprised of USD100 million in senior unsecured notes expiring in 2021 and USD20 million in unsecured and unsubordinated corporate bonds expiring in 2018. As of June 2010 Elektra does not reflect short term debt.

The company generates stable and predictable cash flows. EBITDA has increased over the past four years to approximately USD51 million as of year end 2009 from approximately USD44 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 5.7x as of year end 2009 from 4.9x in 2008 due to the higher EBITDA generation.

The company's liquidity position is considered adequate for the rating category. Liquidity levels measured as cash from operations to debt was 31.1% for the LTM period ended June 2010 (33.2% year ended 2009), which compares favorable with the 2007-2008 average of 15.4%. Cash from operations (CFO) has shown a positive trend as a result of the decline in electricity prices in Panama which eases working capital needs. The company reported cash on hand as of June 2010 of USD17.2 million. Elektra's liquidity position and access to financing is also supported by its line of credits, which currently amounts to USD97.5 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 somewhat exposed to receipt of government subsidies and high energy costs, as the later require great working capital needs.

Elektra is an efficient electric distribution company with energy losses from both technical and non-technical factors that are reasonable for a non-urban electric distributor in Latin America at 10.2% (December 2009). Although may be proved more challenging as the company becomes more effective, further modest improvements to the company's efficiency over the coming years should benefit margins and earnings. Partially offsetting efficiency gains achieved in past years are higher energy prices, which could result in lower collections and increased theft of energy.

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 2009, total subsidies received from the Panamanian government amounted to USD43.6 million. Should the government increase subsidies and/or delay transfers to cover subsidies, 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.

Contact:

Primary Analyst
Vanessa Villalobos
Associate Director
+506-2296-94-54
Fitch Costa Rica Calificadora de Riesgo S.A.
Edificio Fomento Urbano
San Jose, Costa Rica

Secondary Analyst
Lucas Aristizabal
Director
+1-312-368-3260

Committee Chair
Ana Paula
Senior Director
+54-11-5235-8100

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug.16, 2010)

Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.