

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

Fitch Ratings-Chicago-29 June 2007: Fitch Ratings has affirmed Elektra Noreste, S.A. (Elektra) 'BBB' foreign and local currency Issuer Default Ratings (IDRs). Fitch has also affirmed the 'BBB' foreign currency rating of the senior notes due 2021. Approximately US\$100 million of debt securities is affected. The Rating Outlook for all ratings is Stable.

Elektra's ratings are based on its strong financial position, stable cash flow generation and low business risk profile. The ratings also incorporate the company's exposure to regulatory risk, high energy costs, and receipt of government subsidies. Elektra's financial profile is strong, with solid investment-grade credit protection measures. The company generates stable, predictable cash flow. EBITDA has increased almost fivefold during the past six years to US\$45 million in 2006 from US\$10 million in 2000, primarily reflecting demand growth, efficiency improvements and a favorable tariff reset in 2002. Elektra presented strong interest coverage with an EBITDA-to-interest expense ratio of 5.9 times (x) as of year-end 2006 in line with with expectations. The company maintains low leverage with total debt of US\$100 million, resulting in a total debt-to-EBITDA ratio of 2.2x.

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. Direct exposure to energy price changes has been limited by semiannual tariff adjustments, which generally pass through the cost of energy to the end user and also reflect changes in the Panamanian consumer price index (CPI). The last tariff reset took place at the end of last year and will be in place for the four-year period ending June 2010. This tariff reset was a downward revision of the VAD of approximately 3.6% in line with expectation; this represents a decrease in cash flow generation of approximately US\$3.8 million during 2007.

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, of 12.2%. Further modest improvements to the company's efficiency over the coming years should benefit margins and earnings, although efficiency gains achieved in past years may also be affected as higher energy prices potentially result in slower collections and increased theft of energy.

Electricity consumption in Panama is closely related to GDP growth. Consumption in Elektra's service territory has grown by 4.8% on average over the past three years compared with an average of 7.0% GDP growth, although electricity demand growth may slow going forward as continued high energy prices may affect consumption levels and usage habits. Panama's dispatch center, Centro Nacional de Despacho (CND), has forecasted that peak demand will grow 3.4% per year on average for the 2005-2014 period. Moderately slower growth would not be expected to affect the company's credit quality materially.

The ratings of Elektra are not constrained by the 'BB+' 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 'BBB', based on the underlying corporate credit rating of the entity.

Elektra is one of three main electricity distribution companies in Panama and serves approximately 313,000 customers. The company's concession covers an area of approximately 29,000 square kilometers, which amounts to about 39% of Panama's territory and around 41% of its total population. Approximately 58% of Panama City's population lives within Elektra's concession area. The company is obliged to provide service to any end user located within 100 meters of its existing

lines on the basis of its standard connection tariffs.

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