

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

Fitch Ratings-Chicago-03 July 2008: Fitch Ratings has affirmed Elektra Noreste, S.A.'s (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 been very stable during the past four years, ranging between approximately US\$43 million and US\$46 million. Elektra presented strong interest coverage with an EBITDA-to-interest expense ratio of 5.2 times (x) as of year-end 2007, in line with expectations. The company maintains low leverage with total debt of US\$100 million, resulting in a total debt-to-EBITDA leverage ratio of 2.3x as of year-end 2007.

The Panamanian regulatory framework is considered strong, independent from central government and supportive of sector participants. During the first half of 2008, the spot market electricity prices showed high volatility, with an average price of approximately US\$375 per megawatt hour (MWh) during the second quarter and an extremely high peak of approximately 800US\$/MWh (0.80US\$/KWh). This was mainly due to the very thin supply margins, coupled with delays in the arrival of the rainy season and a high oil price.

One positive for the electricity sector's stability and its participants' business risk profile, was that government intervention was minimal. The Panamanian government implemented subtle policies to curb demand (e.g. minor rationing from governmental offices and private sector during night time). As of now, spot prices have normalized as a result of the high level of rain in Panama. New installed capacity is expected to come on line by the end of 2008 and beginning of 2009 to meet rising demand.

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 on February 1st, 2007 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 11.1% during 2007. 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, as well as higher monetary losses given the same level of efficiency.

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 the 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 328,000 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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