Empresa de Transmision Electrica S.A.

Rating Type	Rating	Outlook	Last Rating Action
Local Currency Long-Term IDR	BBB	Stable	New Rating April 3, 2019
Long Term IDR	BBB	Stable	New Rating April 3, 2019
National Long-Term Rating	AAA(pan)	Stable	New Rating April 3, 2019

Click here for full list of ratings.

Financial Summary

(USDm)	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F
Gross Revenue	110	127	132	146
Operating EBITDAR Margin (%)	32.8	47.6	60.3	66.9
FFO Margin (%)	47.2	24.9	31.9	35.1
FFO Fixed Charge Coverage (x)	18.6	2.2	2.3	2.4
FFO Adjusted Leverage (x)	2.6	8.6	8.5	7.1

F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Fitch Ratings has assigned Empresa de Transmision Electrica, S.A. (ETESA) Foreign Currency and Local Currency Long-Term Issuer Default Ratings (IDRs) of 'BBB' and a National Long-Term Rating of 'AAA(pan)'. The Rating Outlook is Stable.

The ratings reflect ETESA's strong linkage with Panama's sovereign (BBB/Stable) due to the government's 100% ownership in the company and history of financial support. ETESA is also strategically important to the country's electricity infrastructure. The ratings reflect the company's relatively low business risk, stable cash flow, ownership of its assets and expected credit metrics in line with those of similarly rated regional peers. Fitch's assessment of the company's Standalone Credit Profile is commensurate with 'bbb–'.

Within Fitch's government-related entities (GRE) criteria, we see both Panamanian government ownership and control as well as the government's support track record for the company as very strong. Fitch sees ETESA's socio-political implication of default as moderate given the low likelihood of service interruptions that could arise from financial distress at the company. Also, we see ETESA's financial implication of default for Panama's government, like with other GREs, as strong due to the company's strategic importance for the country.

Key Rating Drivers

Government Ownership and Support: Fitch views the relationship between ETESA and the Panamanian government as very strong. This is due to the government's 100% ownership in ETESA, its legal monopoly on electricity transmission services in the country per Electricity Sector Law No. 6/97, the board presence of former high-ranking energy and finance government officials and the critical nature of electricity transmission to the country's infrastructure. The linkage is further evidenced by the government's cumulative cash contributions of USD68.7 million to the company from 2011 to 2017.

Stable, Predictable Cash Flows: ETESA's revenues and cash flow generation are very stable and predictable, characteristic of transmission companies, which do not have volume or price risk. The company's maximum revenues are derived by multiplying its asset base by various rates set by the regulator to compensate the company for operations and maintenance, administration and depreciation costs, as well as a built-in profit margin. ETESA's revenues can be adjusted upward or downward based only on frequency and duration of service interruptions. As such, Fitch projects relatively stable EBITDA margins of approximately 60%–70% in the 2019–2022 period, in line with regional peers.

Low Business Risk Profile: The company's low business risk results from its operations as a natural and regulated monopoly on electricity transmission in a transparent regulatory environment. Maximum revenues are set by the regulator every four years, and Fitch expects the company's rates of return on assets to remain constant through mid-2021. As mentioned, the company does not assume price or volume risk, and its revenues are determined by the size of its asset base and applicable rates of return. If a distribution company or generator fails to pay ETESA, the payment is redistributed among the industry players based on their market share.

Decreasing Leverage: Fitch expects ETESA's debt/EBITDA ratio to fall to 5.7x over the medium term and FFO interest coverage will increase to 2.7x following the completion of the third transmission line. ETESA's leverage for 2019 will be high at 7.8x. The deleveraging trend can be attributed to the debt incurred by the construction of the USD378 million third transmission line and the resulting increased revenue as that and other capital improvements are incorporated into the company's regulatory asset base. Expected leverage of this magnitude is not uncommon for electricity transmission companies in the region given the nature of these companies' stable and highly regulated cash flows.

Negative FCF: Due to the capital-intensive nature of electricity transmission, Fitch expects FCF to improve but remain structurally negative over the medium term. Energy grid expansion, along with routine maintenance and upgrades, is expected to necessitate approximately USD100 million of annual capex in the medium-to-long term. A fourth transmission line with an engineering, procurement and construction (EPC) cost of USD550 million is expected to be built by 2023 from Panama City to new renewable energy generation in the western part of the country, though ETESA plans to seek a third-party operator for this project. A mitigating factor to FCF is the company's practice of not paying dividends.

Strong Asset Base: The company benefits from ownership of its asset base, unlike some regional peers that operate their assets under a concession model. These assets include three main high-tension transmission lines that stretch 520km, 389km and 302km and that largely connect hydroelectric generation in western Panama with distribution demand in the Panama City area. In all, the company owns over 3,000km of transmission lines, as well as 17 substations, towers, transformers and other equipment necessary to transport electricity to various delivery points.

Rating Derivation Relative to Peers

Rating Derivation versus Peers	
Peer Comparison	ETESA's ratings reflect a one-notch uplift due to its strong ties with the government of Panama and linkage to the sovereign (BBB/Stable). ETESA is 100% owned by the Panamanian government and has a legal monopoly on electricity transmission services within the country. The government demonstrates its financial commitment to the company with its history of cash contributions, supportive tariff settings and practice of reinvesting dividends. In addition, as the sole provider of electricity transmission in Panama, ETESA plays a critical role in the country's infrastructure and has former high-ranking energy and finance government officials serving on its board of directors. ETESA's Standalone Credit Profile of 'bbb–' reflects the company's low business risk profile and stable cash flow, both of which are characteristic of electricity transmission companies. The company's anticipated deleveraging trajectory following the completion of significant capital investments in 2017 places expected 2020 and 2021 gross leverage at 6.4x and 5.6x, respectively. This compares with expected 2019 leverage of Transelec (Chile, BBB/Stable) at 5.5x and Consorcio Transmantaro S.A. (Peru, BBB–/Stable) at 5.7x. Interconexion Electrica S.A. E.S.P. (Colombia, BBB+/Stable) is rated two notches higher, with expected 2019 leverage of 3.6x, while Brazil's Transmissora Alianca de Energia Electrica S.A. (BB/Stable) is at 2.5x for 2019 but is capped by its country ceiling. Like Transelec and Interconexion Electrica, ETESA benefits from ownership of its transmission network while Consorcio Transmantaro and Transmissora Electrica operate their assets under long-term concessions. In addition, Panama's electricity sector regulator, Authoridad Nacional de los Servicios Publicos (ASEP), benchmarks ETESA's allowed rates of return to those of Transelec, Interconexion Electrica and Consorcio Transmantaro, thereby furthering the basis for comparison among the companies. With respect to nationally rated peers, ETESA [AAA(pan)/Stable] exhibits a low business risk profile similar to other electricity sector participants in Panama, such as AES Panamá, S.R.L. [AA+(pan)/Stable] and AES Changuinola, S.R.L [A+(pan)/RWN]. However, ETESA's relative importance to its electricity market, strong ties with the Panamanian government and monopolistic business model are factors that strengthen its position within its peer group. In terms of financial condition, ETESA is expected to have gross leverage of 7.8x in 2019 and interest coverage (measured as EBITDA to cash interest paid) of 2.6x, compared with peer averages of 4.6x and 5.6x, respectively. This is mitigated by ETESA's deleveraging trajectory and strong existing ties with the Panamanian government.
Parent-Subsidiary Linkage	Fitch's government-related entities methodology is applicable to ETESA. Given the government's 100% ownership in ETESA, history of cash injections, accommodative tariff settings and board member associations, Fitch considers the company's relationship with the Panamanian government to be strong.
Country Ceiling	Panama's country ceiling of A is not a constraint for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	N.A.

Source: Fitch Ratings.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility
Empresa de Transmision Electrica S.A.	BBB/Sta	bbb	bbb	bbb-	a-	bbb	bbb	bbb	b	bb-
Transelec S.A.	BBB/Sta	a+	bbb	bbb+	a-	bbb	bbb+	bbb+	b	bbb
Consorcio Transmantaro S.A. (CTM)	BBB-/Sta	bbb-	bbb	bbb+	a-	bbb	bbb+	bbb	b	bbb-
Interconexion Electrica S.A. E.S.P.	BBB+/Sta	bbb-	bbb	bbb-	bbb+	bbb+	bbb+	bbb+	bbb-	bbb+
Transmissora Alianca de Energia Eletrica S.A.	BB/Sta	bb-	bbb-	bbb	bbb	bbb	bbb-	bbb	bbb	bbb

Source: Fitch Ratings. Importance: Higher, Moderate, Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility
Empresa de Transmision Electrica S.A.	BBB/Sta	0.0	0.0	-1.0	2.0	0.0	0.0	0.0	-6.0	-4.0
Transelec S.A.	BBB/Sta	4.0	0.0	1.0	2.0	0.0	1.0	1.0	-6.0	0.0
Consorcio Transmantaro S.A. (CTM)	BBB-/Sta	0.0	1.0	2.0	3.0	1.0	2.0	1.0	-5.0	0.0
Interconexion Electrica S.A. E.S.P.	BBB+/Sta	-2.0	-1.0	-2.0	0.0	0.0	0.0	0.0	-2.0	0.0
Transmissora Alianca de Energia Eletrica S.A.	BB/Sta	-1.0	2.0	3.0	3.0	3.0	2.0	3.0	3.0	3.0

Source: Fitch Ratings. Worse positioned than IDR In line with IDR Better positioned than IDR

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Due to the company's close relationship with the Panamanian government, a positive sovereign rating action could result in a positive action for the company's rating.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Due to the company's close relationship with the Panamanian government, a negative sovereign rating action could put downward pressure on the company's rating.
- A significant weakening of the company's linkage with the government and a lower government incentive to support the company, or a deterioration of its Standalone Credit Profile to four notches or more below the sovereign.

Liquidity and Debt Structure

Adequate Liquidity: The expected issuance of a long-term bond in the near future will allow the company to refinance its USD400 million loan due in 2021 related to the completion of its third transmission line and a USD71 million loan due in 2030. This will extend the company's maturity profile and provide it with greater short-term financial flexibility. The company ended 2018 with USD8.4 million in short-term debt, which was less than its cash balance of USD19.5 million. Fitch believes the company has adequate liquidity to finance its operations and execute its planned capital improvements.

Debt Maturities and Liquidity at FYE18

Liquidity Summary

(USD 000)	12/31/17	12/31/18
Total Cash and Cash Equivalents	26,702	19,469
Short-Term Investments	0	0
Less: Not Readily Available Cash and Cash Equivalents	(550)	0
Fitch-Defined Readily Available Cash and Cash Equivalents	**26,152**	**19,469**
Availability Under Committed Lines of Credit	2,050	2,279
Total Liquidity	**28,202**	**21,748**
LTM EBITDA	**35,249**	**59,912**
LTM FCF	**27,975**	**(364,734)**

Source: Fitch Ratings, Fitch Solutions, Empresa de Transmision Electrica, S.A.

Scheduled Debt Maturities

(USD 000)	**12/31/18**
Current Year	8,423
Plus 1 Year	0
Plus 2 Years	0
Plus 3 Years	397,269
Plus 4 Years	721
Thereafter	85,943
Total Debt Maturities	**492,355**

Source: Fitch Ratings, Fitch Solutions, Empresa de Transmision Electrica, S.A.

Key Rating Issues

Construction of Fourth Transmission Line

The Issue	The company is expected to commission the construction of a 317km fourth transmission line in 2020 to be completed in 2023 at an approximate EPC cost of USD550 million.		
Our View	While a significant undertaking and investment, Fitch expects this project to be operated and managed by a third party under a long-term contract. Therefore, the project should not result in a need for increased financing or otherwise impact the company's financial condition. Although a risk exists that integrating the fourth transmission line into the transmission network may result in service interruptions, Fitch expects any penalties to be borne by the line's operator.		
Timeline	Medium Term	Rating Impact	Neutral

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- 100% of net income will be reinvested in the company.
- The company will issue a long-term bond in the near future to refinance existing debt.
- The applicable 30-year U.S. Treasury rate for the 2021–2025 tariff cycle will be 3.40%.
- The fourth transmission line project will be operated by a third-party provider.
- Annual transmission service interruption charges, or obligated generation, will stabilize at USD5 million beginning in 2020.

Financial Data

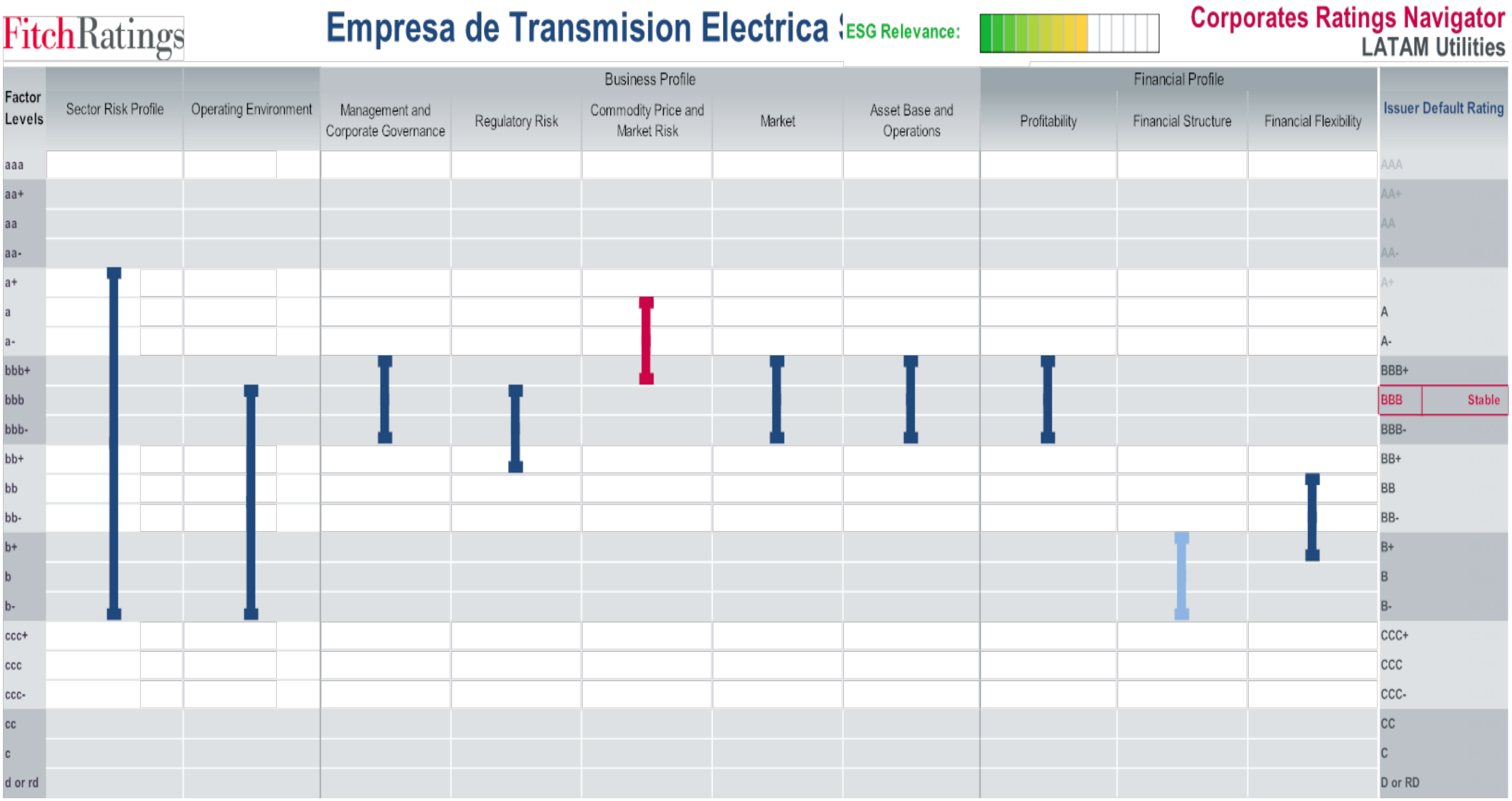
(USDm)	Historical			Forecast		
	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021
Summary Income Statement						
Gross Revenue	67	110	127	132	146	169
Revenue Growth (%)	1.3	63.8	15.9	3.9	10.7	15.8
Operating EBITDA (Before Income from Associates)	23	35	60	79	97	120
Operating EBITDA Margin (%)	34.1	32.2	47.2	59.9	66.5	70.7
Operating EBITDAR	24	36	60	80	98	120
Operating EBITDAR Margin (%)	35.7	32.8	47.6	60.3	66.9	71.1
Operating EBIT	7	10	28	51	68	87
Operating EBIT Margin (%)	10.3	9.4	22.3	38.9	46.2	51.4
Gross Interest Expense	-4	-8	-20	-31	-36	-38
Pretax Income (Including Associate Income/Loss)	4	3	14	20	31	49
Summary Balance Sheet						
Readily Available Cash and Equivalents	11	27	19	44	16	11
Total Debt with Equity Credit	124	139	492	620	625	665
Total Adjusted Debt with Equity Credit	132	144	492	625	630	671
Net Debt	114	112	473	576	609	654
Summary Cash Flow Statement						
Operating EBITDA	23	35	60	79	97	120
Cash Interest Paid	-4	-2	-25	-31	-36	-38
Cash Tax	-5	0	0	-6	-9	-15
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	1	1	1	0	0	0
Other Items Before FFO	14	18	-4	0	0	0
Funds Flow from Operations	28	52	32	42	51	67
FFO Margin (%)	42.3	47.2	24.9	31.9	35.1	39.4
Change in Working Capital	9	30	-37	15	0	12
Cash Flow from Operations (Fitch Defined)	37	82	-5	57	52	79
Total Non-Operating/Nonrecurring Cash Flow	0	0	0			
Capex	-67	-54	-359			
Capital Intensity (Capex/Revenue) (%)	100.3	49.3	283.1			
Common Dividends	0	0	0			
FCF	-30	28	-365			
Net Acquisitions and Divestitures	0	0	5			
Other Investing and Financing Cash Flow Items	0	-40	-1	0	0	0
Net Debt Proceeds	34	15	353	128	5	40
Net Equity Proceeds	0	14	0	0	0	0
Total Change in Cash	4	16	-7	25	-28	-5
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-67	-54	-354	-160	-85	-124
FCF After Acquisitions and Divestitures	-30	28	-360	-103	-33	-45
FCF Margin (After Net Acquisitions) (%)	-44.3	25.5	-283.3	-77.9	-22.8	-26.7
Coverage Ratios						
FFO Interest Coverage (x)	7.4	23.6	2.2	2.4	2.4	2.7
FFO Fixed Charge Coverage (x)	6.2	18.6	2.2	2.3	2.4	2.7
Operating EBITDAR/Interest Paid + Rents (x)	4.5	12.5	2.4	2.5	2.6	3.1
Operating EBITDA/Interest Paid (x)	5.3	15.8	2.4	2.6	2.7	3.1
Leverage Ratios						
Total Adjusted Debt/Operating EBITDAR (x)	5.4	3.9	8.0	7.8	6.4	5.6
Total Adjusted Net Debt/Operating EBITDAR (x)	5.0	3.2	7.7	7.3	6.3	5.5
Total Debt with Equity Credit/Operating EBITDA (x)	5.3	3.9	8.1	7.8	6.4	5.6
FFO Adjusted Leverage (x)	4.0	2.6	8.6	8.5	7.1	6.4
FFO Adjusted Net Leverage (x)	3.6	2.2	8.3	7.9	6.9	6.2

Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



FitchRatings

Empresa de Transmision Electrica S.A.

Corporates Ratings Navigator
LATAM Utilities

Operating Environment

bbb+	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
bbb	Financial Access	bb	Below average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bbb	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'bbb'.
b-			
ccc+			

Regulatory Risk

bbb+	Independence	bb	Moderate government Interference in utility regulations.
bbb	Balance	bbb	Regulatory framework is moderately biased toward the needs of end users at the expense of sector participants.
bbb-	Transparency	bbb	The tariff-setting procedure is transparent and includes the participation of industry players.
bb+	Recourse of Law	bbb	Procedures to appeal regulatory rulings are clear but long processing periods. Companies can oppose or comment on regulations.
bb	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.

Market

a-	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.
bbb+	Customer Mix	bb	High concentration of customers.
bbb	Geographic Location	a	Favorable location or high geographic diversity.
bbb-	Supply Demand Dynamics	bbb	Moderately favorable outlook for prices and rates.
bb+			

Profitability

a-	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
bbb+	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb			
bbb-			
bb+			

Financial Flexibility

bb+	Financial Discipline	bbb	Less conservative policy but generally applied consistently.
bb	Liquidity (Cash+CFO)/S-T Debt	bb	Liquidity ratio around 1.0x. Less smooth debt maturity or concentrated funding.
bb-	FFO Fixed Charge Cover	b	2.0x
b+	FX Exposure	aa	No material FX mismatch.
b			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

a-	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb+	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
bbb	Group Structure	aa	Transparent group structure.
bbb-	Financial Transparency	bb	Financial reporting is appropriate but with some failings (eg lack of interim or segment analysis).
bb+			

Commodity Price and Market Risk

a+	Price and Volume Risk	a	Company has low exposure to changes in price and costs (i.e. all costs are timely passed through). Exposure to volume risk is low.
a	Counterparty Risk	bbb	Weighted average credit quality of actual and potential offtakers is in line with 'BBB' rating.
a-			
bbb+			
bbb			

Asset Base and Operations

a-	Asset Diversity	bbb	Good quality and/or reasonable scale diversified assets.
bbb+	Reliability of Operations and Cost Position	bbb	Reliability and cost of operations at par with industry averages with moderate operating losses.
bbb	Exposure to Environmental Regulations	bbb	Limited or manageable exposure to environmental regulations.
bbb-	Capital and Technological Intensity of Capex	bbb	Moderate reinvestment requirements in established technologies.
bb+			

Financial Structure

bb-	Lease Adjusted FFO Gross Leverage	b	5.5x
b+	Lease Adjusted FFO Net Leverage	b	5.0x
b	Total Adjusted Debt/Operating EBITDAR	b	5.5x
b-			
ccc+			

Credit-Relevant ESG Derivation

Empresa de Transmision Electrica S.A. has 9 ESG potential rating drivers

- Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)
- Regulatory-driven access and affordability targets of utility services
- Quality and safety of products and services; data security
- Impact of labor negotiations and employee (dis)satisfaction
- Social resistance to major projects that leads to delays and cost increases
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	3	issues	2
	2	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

Navigator Version: RN 2.2.0.0

FitchRatings

Empresa de Transmision Electrica S.A.

Corporates Ratings Navigator
LATAM Utilities

Credit-Relevant ESG Derivation

Empresa de Transmision Electrica S.A. has 9 ESG potential rating drivers

- Empresa de Transmision Electrica S.A. has exposure to extreme weather events but this has very low impact on the rating.
- Empresa de Transmision Electrica S.A. has exposure to access/affordability risk but this has very low impact on the rating.
- Empresa de Transmision Electrica S.A. has exposure to customer accountability risk but this has very low impact on the rating.
- Empresa de Transmision Electrica S.A. has exposure to labor relations & practices risk but this has very low impact on the rating.
- Empresa de Transmision Electrica S.A. has exposure to social resistance but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

Overall ESG Scale

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	3	issues	2
	2	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Asset Base and Operations; Regulatory Risk; Profitability; Financial Structure
Energy Management	2	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Asset Base and Operations; Commodity Price and Market Risk; Profitability; Financial Structure
Water & Wastewater Management	1	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Asset Base and Operations; Regulatory Risk; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	2	Impact of waste including pollution incidents; discharge compliance; sludge, coal ash	Asset Base and Operations; Regulatory Risk; Profitability
Exposure to Environmental Impacts	3	Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)	Asset Base and Operations; Commodity Price and Market Risk; Profitability

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Regulatory-driven access and affordability targets of utility services	Asset Base and Operations; Regulatory Risk; Profitability
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulatory Risk; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Profitability; Financial Structure

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale: 5, 4, 3, 2, 1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

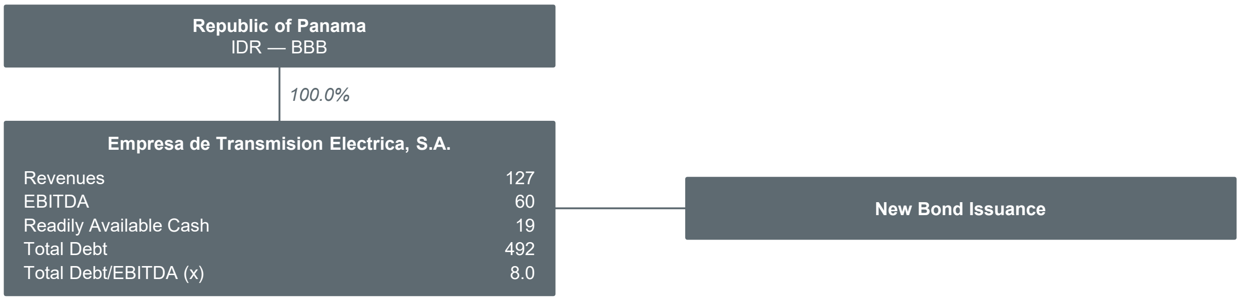
CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Organizational Structure — Empresa de Transmision Electrica, S.A.
($ Mil., LTM as of Dec. 31, 2018)



Source: Fitch Ratings, Fitch Solutions, Empresa de Transmision Electrica, S.A.

Peer Financial Summary

Company	IDR	Financial Statement Date	Gross Revenue (USDm)	Operating EBITDAR Margin (%)	FFO Margin (%)	FFO Fixed Charge Coverage (x)	FFO Adjusted Leverage (x)
Empresa de Transmision Electrica S.A.	BBB						
		2018	127	47.6	24.9	2.2	8.6
		2017	110	32.8	47.2	18.6	2.6
		2016	67	35.7	42.3	6.2	4.0
Transelec S.A.	BBB						
	BBB	2017	431	84.1	62.7	3.4	6.0
	BBB	2016	417	83.7	68.8	3.9	5.8
	BBB	2015	423	83.4	69.5	4.2	5.6
Consorcio Transmantaro S.A. (CTM)	BBB–						
	BBB–	2018	234	72.6	44.0	3.4	6.4
	BBB–	2017	285	44.7	47.4	5.4	5.2
	BBB–	2016	405	29.6	23.5	4.4	6.7
Interconexion Electrica S.A. E.S.P.	BBB+						
	BBB+	2017	1,930	64.7	47.6	4.8	4.8
	BBB+	2016	2,167	49.7	127.2	10.5	1.4
	BBB	2015	1,920	53.1	38.8	3.6	4.1
Transmissora Alianca de Energia Eletrica S.A.	BBB–						
	BB+	2017	309	77.1	125.2	5.8	2.2
	BB+	2016	386	84.5	96.5	4.9	2.1
	BBB–	2015	452	87.7	87.0	4.6	2.2

Source: Fitch Ratings, Fitch Solutions.

Reconciliation of Key Financial Metrics

(USD Mil., as Reported)	**12/31/18**
Income Statement Summary	
Operating EBITDA	60
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	1
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	61
+ Operating Lease Expense Treated as Capitalised (h)	1
= Operating EBITDAR after Associates and Minorities (j)	61
Debt and Cash Summary	
Total Debt with Equity Credit (l)	492
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	492
Readily Available Cash [Fitch-Defined]	19
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	19
Total Adjusted Net Debt (b)	473
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	0
+ Interest (Paid) (d)	(25)
= Net Finance Charge (e)	(25)
Funds From Operations [FFO] (c)	32
+ Change in Working Capital [Fitch-Defined]	(37)
= Cash Flow from Operations [CFO] (n)	(5)
Capital Expenditures (m)	(359)
Multiple applied to Capitalised Leases	0.0
Gross Leverage	
Total Adjusted Debt/Op. EBITDAR[a] [x] (a/j)	8.0
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	8.6
Total Adjusted Debt/(FFO – Net Finance Charge + Capitalised Leases – Pref. Div. Paid)	
Total Debt With Equity Credit/Op. EBITDA[a] [x] (l/k)	8.1
Net Leverage	
Total Adjusted Net Debt/Op. EBITDAR[a] [x] (b/j)	7.7
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	8.3
Total Adjusted Net Debt/(FFO – Net Finance Charge + Capitalised Leases – Pref. Div. Paid)	
Total Net Debt/(CFO – Capex) [x] ((l-o)/(n+m))	(1.3)
Coverage	
Op. EBITDAR/(Interest Paid + Lease Expense)[a] [x] (j/-d+h)	2.4
Op. EBITDA/Interest Paid[a] [x] (k/(-d))	2.4
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	2.2
(FFO + Net Finance Charge + Capit. Leases – Pref. Div Paid)/(Gross Int. Paid + Capit. Leases – Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	2.2
(FFO + Net Finance Charge – Pref. Div Paid)/(Gross Int. Paid – Pref. Div. Paid)	

[a]EBITDA/R after dividends to associates and minorities.
Source: Fitch Ratings, Fitch Solutions, Empresa de Transmision Electrica, S.A.

Fitch Adjustment Reconciliation

(USD Mil.)	Reported Values 12/31/18	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Adjusted Values
Income Statement Summary				
Revenue	127	0		127
Operating EBITDAR	60	0		60
Operating EBITDAR after Associates and Minorities	60	1	1	61
Operating Lease Expense	1	0		1
Operating EBITDA	60	0		60
Operating EBITDA after Associates and Minorities	60	1	1	61
Operating EBIT	28	0		28
Debt and Cash Summary				
Total Debt with Equity Credit	492	0		492
Total Adjusted Debt with Equity Credit	492	0		492
Lease-Equivalent Debt	0	0		0
Other Off-Balance-Sheet Debt	0	0		0
Readily Available Cash and Equivalents	19	0		19
Not Readily Available Cash and Equivalents	0	0		0
Cash-Flow Summary				
Preferred Dividends (Paid)	0	0		0
Interest Received	0	0		0
Interest (Paid)	(25)	0		(25)
Funds From Operations [FFO]	31	1	1	32
Change in Working Capital [Fitch-Defined]	(37)	0		(37)
Cash Flow from Operations [CFO]	(6)	1	1	(5)
Non-Operating/Nonrecurring Cash Flow	0	0		0
Capex	(359)	0		(359)
Common Dividends (Paid)	0	0		0
FCF	(366)	1	1	(365)
Gross Leverage (x)				
Total Adjusted Debt/Op. EBITDAR[a]	8.1			8.0
FFO Adjusted Leverage	8.8			8.6
Total Debt With Equity Credit/Op. EBITDA[a]	8.2			8.1
Net Leverage (x)				
Total Adjusted Net Debt/Op. EBITDAR[a]	7.8			7.7
FFO Adjusted Net Leverage	8.4			8.3
Total Net Debt/(CFO – Capex)	(1.3)			(1.3)
Coverage (x)				
Op. EBITDAR/(Interest Paid + Lease Expense)[a]	2.4			2.4
Op. EBITDA/Interest Paid[a]	2.4			2.4
FFO Fixed Charge Coverage	2.2			2.2
FFO Interest Coverage	2.2			2.2

[a]EBITDA/R after dividends to associates and minorities.
Source: Fitch Ratings, Fitch Solutions, Empresa de Transmision Electrica, S.A.

Related Research and Criteria

Government-Related Entities Rating Criteria - Amended (March 2019)
Corporate Rating Criteria (February 2019)
National Scale Ratings Criteria (July 2018)

Analysts

Lincoln Webber
+1 646 582-3523
lincoln.webber@fitchratings.com

Erick Pastrana
+506 2106-5184
erick.pastrana@fitchratings.com

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.