MOODY'S INVESTORS SERVICE

ISSUER IN-DEPTH

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CLIENT SERVICES

Empresa de Transmision Electrica, S.A.

Pre-Sale Report

Summary Rating Rationale

» Moody's Investors Service ("Moody's") assigned a Baa1 Global Scale rating to the proposed issuance of up to $500 million amortizing Senior Unsecured Notes to be issued by Empresa de Transmision Electrica, SA ("ETESA" or "the Company") that will have a tenor of up to 30 years.

» ETESA is Panama's electricity transmission company, wholly-owned by the Government of Panama (Baa1, stable). The Company was created in 1999 with exclusive rights on the transmission, dispatch, control and demand planning for electricity generation in Panama. It owns the national transmission system which mainly consists of three trunk transmission lines, adding up to close to 3,000 km.

» The assigned Baa1 rating considers that the proposed notes will be direct obligations of ETESA, and assumes an increase in debt levels in 2019 but a gradual deleveraging over the following years. Proceeds are expected to be used to refinance and consolidate current outstanding debt.

» ETESA's creditworthiness is supported by the visible cash flows stemming from its strategic position as the sole electricity transmission provider in the country and the regulated market under which it operates, where tariffs are adjusted in order to provide a determined return on investments.

» The Company does not face volume risk since its revenues are a function of its productive assets. The Company's revenues are charged to generation and distribution companies. If a client fails to pay ETESA, the payment is redistributed among the players based on their market share, a key credit strength.

» ETESA's projected financial metrics exhibit a relatively high leverage, particularly over the next few years mainly due to the capital investment program. Under Moody's base case, ETESA's cash interest coverage (Funds From Operations (FFO) + interests / interests) and FFO / net debt are projected to average 2.9x and 10% respectively, over the first three years of our projection.

» The outlook is stable, reflecting the regulated business model that is expected to generate stable and visible cash flows. The stable outlook is also in line with the rating outlook of the Government of Panama, the support provider.

Credit Strengths

» Sole transmission company in Panama with exclusive rights to operate the network.

» Essential and regulated service provides for a highly visible stream of cash flows with no volume risk.

» Wholly owned by the Government of Panama, which under our GRI framework provides rating uplift.

» Not required to distribute dividends to the Government of Panama. Instead, excess cash is used to fund investments.

Credit Challenges

» Relatively high leverage, particularly over the next few years due to the capital investment program.

» Operates under a concession contract with a finite life ending in 2024, although renewal risk is materially mitigated by its linkages with the government and since under the law is the only entity permitted to own, operate and develop the country's transmission network

» Transmission capacity shortfalls must be covered by ETESA since the Company must compensate for the electricity that it is not able to deliver.

Rating outlook

The outlook is stable, reflecting the regulated business model that is expected to generate stable and visible cash flows. This outlook is also in line with the rating outlook of the Government of Panama, the support provider.

Factors that could lead to an upgrade

» Given that the Baa1 rating is in line with the sovereign rating of Panama, an upgrade of the rating is unlikely in the near term

» Upward pressure on ETESA's rating would require that the company strengthens on a stand-alone basis and, importantly, that the sovereign rating of Panama is upgraded

Factors that could lead to a downgrade

» The rating would come under downward pressure if there is a downgrade in the sovereign rating or if we change our view on implied government support

» The BCA and rating could also be downgraded if ETESA's key financial metrics deteriorate as a result of higher leverage or lower cash flow generation. Specifically, if cash interest coverage and FFO/Debt were expected to fall below 2.8x and 9.0%, respectively, on a sustained basis

Key Indicators

Exhibit 1

Empresa de Transmision Electrica, S.A.

	Dec-19	Dec-20	Dec-21	Dec-22
FFO Interest Coverage	1.7x	3.6x	3.3x	3.1x
Net Debt / Fixed Assets	80.1%	66.2%	71.5%	72.4%
FFO / Net Debt	3.8%	14.6%	11.8%	10.1%
RCF / Net Debt	3.8%	14.6%	11.8%	10.1%

Financial metrics based on Moody's Base Case Scenario.
Source: ETESA and Moody's Investors Service.

Key Terms of the Transaction

Exhibit 2

Issuer	Empresa de Transmisión Eléctrica S.A.
Distribution	Rule 144A / Regulation S
Use of Proceeds	$400 million to prepay Citibank facility, $24 million to prepay existing credit facility with Caja de Ahorros, $50 million to prepay existing credit facility with CABEI and $26 million to prepay existing credit facility with Banco Nacional.
Amount	US$[500] million
Ranking	Senior Unsecured
Amortization	Amortizing
Tenor	Up to 30 years
Listing / Registration	Panamá
Governing Law	New York
Covenants	Standard investment grade covenant package, including restriction on liens of up to 15% of the Issuer's consolidated net tangible assets
Change of Control	Put to Issuer at 101%

Source: Empresa de Transmisión Electrica and Moody's Investors Service.

Corporate Profile

ETESA is Panama's electricity transmission company, wholly-owned by the Government of Panama (Baa1 stable). ETESA was created in 1999 with exclusive rights on the transmission, dispatch, control and demand planning for electricity generation in Panama. The Company's primary business consists of high voltage transmission from power generation centers to local distribution centers and to large scale consumers. In addition, it is responsible for the delivery of electricity to and from the national grid connection points to international grids and for the operation of the integrated national system.

The Company is in charge of the investment and expansion of the national grid, this includes the operation and building of new installations, reinforcement of the existing grid and planning for transmission services. ETESA operates and owns the national transmission system which mainly consists of three trunk transmission lines, adding up 3,088.1 km of 230kV power lines and 306.9 km of 115 kV power lines.

Detailed Rating Considerations

Exclusive Rights to an Essential Network

ETESA's Baa1 rating assigned reflects key credit strengths, including its solid market position as the sole transmission company in Panama with exclusive rights and legal monopoly status to operate the network. The Company provides an essential service for Panama's economy, it is a vital link in the chain from power generation companies to the end consumer.

ETESA is by law the only operator and owner of the National Transmission System, which mainly consists currently of three transmission lines with a fourth planned line of transmission. Law No. 6 of February 3, 1997 provides the regulatory framework that hands over the exclusive monopoly rights of Panama's electricity transmission services to ETESA.

The law also sets the tariff system, the services that must be provided and the rights and obligations that we have under the electricity transmission system and the energy sector as whole.

Concession Likely to be Renewed

In addition to the Law No. 6, ETESA is authorized by the regulator of public services, Autoridad de los Servicios Publicos ("ASEP"), to provide the public electricity transmission service under an exclusive renewable concession contract expiring in 2024. As such, ETESA operates under a contract with a finite life, although renewal risk is materially mitigated by its strong linkages with the government and by the fact that under the current law is the only entity permitted to own, operate and develop the country's transmission network.

The monopoly provided under the law is in addition to the concession and in the unlikely event the concession was not to be renewed, the law would need to be amended in order to allow another company to own and operate Panama's national transmission network, which in our view is a very remote scenario.

Moody's expects the concession to be renewed but this will not occur before the closing of the issuance. Recently the regulator issued a resolution where an addendum to the concession contract was proposed. The addendum mirrors the distribution companies' contracts regarding the procedure to request a concession extension. Once approved by the regulator and ETESA, the amended concession will allow that the extension to be requested 3 years prior to the expiration date (2021). Once there is an agreement about the regulator's proposed addendum, the concession contract will be signed by both parties and countersigned by the General Comptroller of the Republic, in order to make the document legally binding for ETESA and the regulator.

Stable Cash Flows Stemming from a Regulated Tariff

ETESA provides an essential and regulated service, with tariffs sized to cover operating and investment costs, guarantee its sustainability, and generate a highly visible stream of cash flows.

ETESA has a "Maximum Permitted Income" for the transmission services it provides. This amount is determined by the regulator, and is defined through a tariff regime that is revised every four years, the next review period will be in 2021, and will become effective in July 2021. This tariff is meant to provide a fixed return after covering transmission and administrative costs, operating expenses and depreciation of assets. It is calculated as a percentage of its regulated fixed asset base. As such, the Company's revenues do not depend on the energy that is transported through the system, but are a function of the Company's productive assets, a credit positive.

According to Law No. 6, the transmission tariff should be enough to cover capital expenditures, operations and maintenance, administration and depreciation expenses. For the current tariff period (2017-2021), applicable rates are as follows: 7.76% (7.0% based on a fixed return + 2.76% based on 30-year US Treasury bond and a 2.0% upward or downward discretional spread) over net productive assets, 2.43% over replacement value of assets, 0.93% over replacement value of assets and 3.50% over gross assets, respectively covering all mentioned expenses.

Interest payment for debt service is the only expense not covered under the tariff. Nevertheless, interest expenses paid during construction periods are capitalized as additional value to a respective asset, thus generating additional tariff income for the related portion.

Having a transparent and regulated tariff regime allows for an efficient forecast of ETESA's financial needs, which historically have been only used for capital expenditures, as all other expenses are covered by tariff components.

Tariffs are charged to generation and distribution companies and if any of those companies fails to make a payment to ETESA, the payment is redistributed among the players based on their market share.

Transmission Capacity Shortfall Payments

The Company occasionally will have to pay "Generación Obligada" ("GO") expenses based on availability metrics when ETESA is not able to deliver electricity due to capacity constraints. The availability rates of the system are measured by ASEP primarily through two metrics, average frequency of interruption by KVA (FMIK) and total duration of interruption by KVA (TTIK).

For the 2017-2021 tariff period, the tariff was increased by $80 million in order to compensate for costs and expenses associated to Generación Obligada incurred as a result of delays suffered due to the construction of the Third Transmission Line in 2017 that were out of ETESA's control. Going forward, given that the Third Transmission Line is operational and that Fourth Transmission is expected to be built, we do not expect material costs associated with Generación Obligada that could impact ETESA's creditworthiness.

Expansion Plan

As the tariff is driven by ETESA's asset base, the Company executes its investment plan in accordance with the expansion plan. This plan is revised every year and includes all investment projects that we are required to execute in the short, medium and long term, with the first four years being legally mandated.

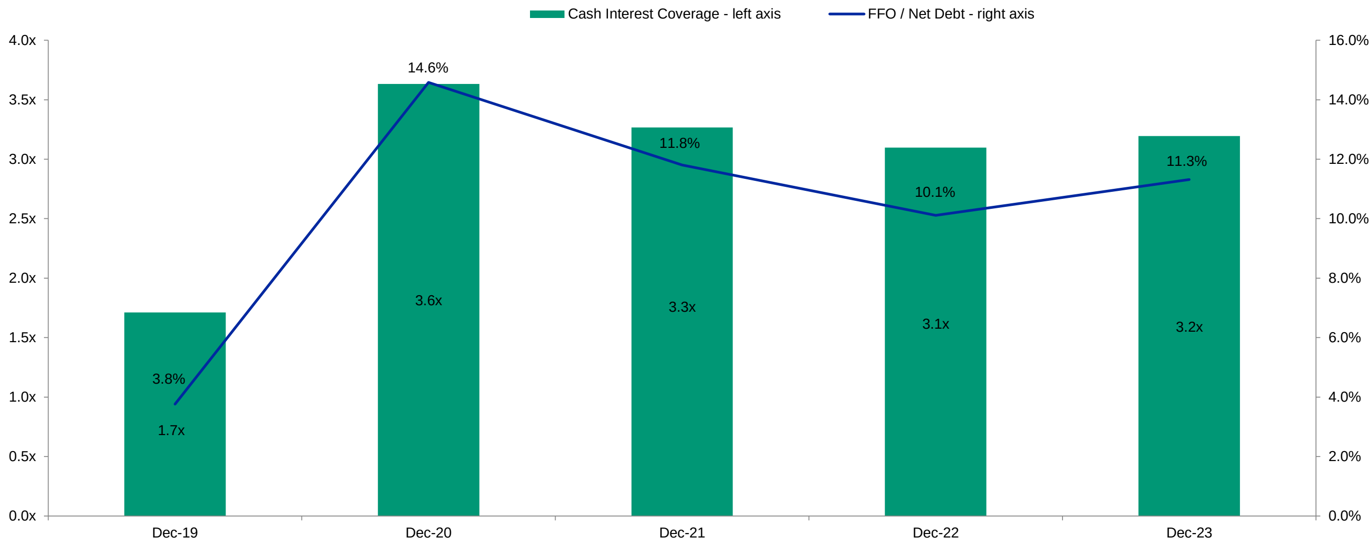
Once the plan is approved by the regulator and the projects in the plan enter into operation, ETESA is entitled to receive tariff increases according to the effective tariff regime.

Financial Projections and Key Financial Metrics

As a result of ETESA's capital program for the coming years, that averages a yearly investment equivalent to 14.6% of net fixed assets over the period 2019-2021, Moody's projects that ETESA will record a relatively high leverage. Under Moody's base case, ETESA's cash interest coverage (Funds From Operations (FFO) + interests / interests) and FFO / net debt are projected to average 2.9x and 10% respectively, over the first three years of our projection (2019-2021).

A key assumption embedded in our rating is that the planned 4th transmission line, with an estimated EPC cost of $550 million, will be built under a Build, Operate, Transfer ("BOT") scheme, without recourse to ETESA and without any material capital requirements from the company. The bidding process for this transmission line began in June 2018 and is expected to be completed during the first half of 2019.

Exhibit 3
Projected Financial Metrics



Financial metrics based on Moody's Base Case Scenario.
Source: ETESA and Moody's Investors Service.

Close links to the Government of Panama

The Baa1 issuer rating assigned to ETESA reflects the application of Moody's joint default analysis (JDA) framework for government related issuers (GRIs), which takes into account the following four input factors: i) a baseline credit assessment (BCA) of baa2 as a measure of ETESA's stand-alone creditworthiness, ii) the Baa1 rating of the Government of Panama as ETESA's support provider, as well as iii) our estimates of High implied government support in the case of financial distress and iv) a Very High default dependence between ETESA and the Panamanian government. These assumptions are supported by the company's strong linkages with the Government of Panama, which owns 100% of ETESA. These also reflect the strategic and essential nature of the services provided, the government control and direction of the company, and precedents of financial support via tariffs or direct capital contributions, which under our framework ETESA's rating translates into a one-notch rating uplift from the BCA of baa2.

The Panama government has supported ETESA by providing capital contributions since 2011 for a total amount of $68.7 million. By policy ETESA does not have to pay any dividends, on the other hand it reinvests all the annual profits in the development and expansion of more efficient transmission lines, which allow the Company to provide more competitive tariffs.

In 2018, the Government of Panama supported ETESA by approving an extraordinary tariff increase that results in additional $80 million in revenues to compensate for the "Generacion Obligada" expense incurred by ETESA due to the delay of the Third Transmission Line. Nonetheless, approximately half of the $80 million will be deducted from tariffs in the coming years to compensate the market.

According to Law 6 of 1997, the Board of Directors is responsible for defining the policies for the proper operation, development and modernization of ETESA; it has historically been led by the Minister of Economy and Finance.

Rating Methodology

The methodologies used in these ratings were Regulated Electric and Gas Networks published in March 2017, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Exhibit 4

Regulated Electric and Gas Networks Methodology Scorecard

Factor	Subfactor	Score	Metric
1. Regulatory Environment and Asset Ownership Model	a) Stability and Predictability of Regulatory Regime	A	
	b) Asset Ownership Model	Baa	
	c) Cost and Investment Recovery (Ability and Timeliness)	A	
	d) Revenue Risk	Aa	
2. Scale and Complecity of Capital Program	a) Scale and Complecity of Capital Program	Ba	
3. Financial Policy	a) Financial Policy	Baa	
4. Leverage and Coverage	a) FFO Interest Coverage (3 Year Avg)	Baa	2.87x
	b) Net Debt / Fixed Assets (3 Year Avg)	Baa	72.63%
	c) FFO / Net Debt (3 Year Avg)	Ba	10.05%
	d) RCF / Net Debt (3 Year Avg)	Baa	10.05%
Notching Considerations		**Notch**	
	1- Structural Considerations and Sources of Rating Uplift From Creditor Protection	0	
Scorecard Indicated Rating:		**Baa2**	

Source: Moody's Investors Service.

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