

FITCH AFFIRMS C.A. ELECTRICIDAD DE CARACAS'S IDR AT 'B+'

Fitch Ratings-Caracas-07 March 2011: Fitch Ratings has affirmed C.A. La Electricidad de Caracas's (EDC) local and foreign currency Issuer Default Ratings (IDRs) at 'B+' as well as its national scale long and short term ratings of 'AAA(ven)' and 'F-1+(ven)', respectively. Fitch also affirms EDC's approximately USD663 million senior unsecured debt issuance due 2014 and 2018 at 'B+/RR4'.

The Ratings Outlook is Stable.

EDC's credit quality reflects the company's linkage to the government of Venezuela, as its majority shareholder is Petroleos de Venezuela S.A. (PDVSA), the national oil company which owns 93.62% of EDC's stock. This linkage is further heightened by the increasing government control of operations and the subsidies the latter provides to finance EDC's operational costs and capital expenditures.

Ratings Linked to the Government:

EDC receives explicit support from both PDVSA and the government in the form of subsidized fuel costs, access to foreign currency and government assistance to cover operating losses and capital expenditures. The Venezuelan government expects, by the end of 2011, to spin-off EDC from PDVSA and into a recently formed state owned entity called CORPOELEC. This is viewed as neutral to marginally positive for EDC's current financial profile as its financial obligations would be consolidated in to a larger integrated energy company with relatively low debt levels, yet, potentially with equally negative operating margins.

The 2018 bond issue covenants allow for the eventual consolidation of EDC into a third party, CORPOELEC, as long as the latter assumes, by supplemental indenture, all of EDC's obligations under current indenture and the notes.

Declining Margins Turn Negative:

EDC's profitability has significantly deteriorated as a result of a tariff freeze since 2002 and increased financial burden associated with its new operational responsibilities in Aragua, Miranda and Nueva Esparta states. The company's financial metrics have also worsened as a result of the implementation of 1,000 MW of inefficient distributed energy generation units spread throughout the country, which has placed upward pressure on operating costs.

Las definiciones de calificación y las condiciones de uso de las mismas están disponibles en las páginas de internet de la calificadora 'www.fitchratings.com' y 'www.fitchvenezuela.com'. Las calificaciones vigentes, así como los criterios y metodologías, están disponibles también en estos sitios. Diversas políticas y procedimientos internos, como los relativos al Código de Conducta, manejo de información confidencial, prevención de conflictos de interés, entre otras, están disponibles en las referidas páginas de internet.

Furthermore, high inflation has contributed to higher costs, further impacting profitability margins. EDC will likely continue to report operating losses as a result of no expected changes in tariffs. However, a potential reduction in operating losses could come from focusing on decreasing non technical losses (electricity theft) and improving collections, both from the public and private sectors.

During the LTM ended Sept. 30, 2010, EDC's EBITDA declined to negative USD295 million from negative USD56 million in 2009. The company reported positive Funds from Operations FFO of USD358 million during the same period, primarily as a result in an increase in other accounts payables due to the increasing capital expenditures in new capacity. Fitch does not expect the government to implement a tariff adjustment in the short term, and as such EBITDA margins will continue to deteriorate, increasing its dependence on government transfers to meet its cash needs.

Sovereign Support Needed to Fund CAPEX:

As of the last 12 months ended Sept. 30, 2010, Cash Flow from Operations (CFO) of USD248 million was significantly insufficient to cover the company's capital expenditures of USD1,610 million. As a result, EDC received USD1,427 million in government financing, mostly coming from 'El Fondo Conjunto Chino Venezolano (FCCV)' (USD378 million), FONDEN (USD747million), a special Electricity Sector Fund created to respond to the electricity crisis experienced during the first semester of 2010 (USD173 million), PDVSA's social fund (USD71 million) and CORPOELEC (USD59 million).

Going forward, the continuing support of the Venezuelan government will be the key to maintaining the financial viability of the electricity sector in general and of EDC's assets in particular. Furthermore, the electricity sector is expected to continue to receive funds from the Special Electric Fund (established in 2010) and be allocated complementary funds if necessary through the mechanism of additional credits contemplated in the execution of the national budget to finance and implement the government's sector initiatives.

Liquidity Continues To Fall:

As of Sept. 30, 2010, EDC had USD96 million of cash on hand (USD240 million in FY 2009) and USD1 million in short-term debt. Although liquidity easily covers its short-term obligations, weakening operating results are putting pressure on organic cash generation as shown by declining profitability and liquidity. EDC's total debt was USD673 million by September 2010, comprised primarily of the USD650 million notes due in 2018, making debt maturities quite manageable in the medium term.

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Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 16, 2010)

--'Public Power Rating Guidelines' (June 11, 2009)

--'Country Ceilings' (Sept. 12, 2008)

--'Credit Rating Guidelines for Regulated Utility Companies' (July 31, 2007)

--'Parent and Subsidiary Rating Linkage' (June 17, 2007)