

## Fitch Ratings

## Fitch Affirms 'AAA (col)' and 'F1+ (col)' Ratings for ISA Bonds and Commercial paper Program

**Fitch Ratings - Bogotá - (May 11, 2017):** Fitch Ratings affirmed the rating of the bonds up to COP3.3 trillion at 'AAA (col)' and Commercial Papers up to COP200 billion at 'F1 + (col)' that are part of the Interconexión Eléctrica SA E.S.P. Internal Public Debt Securities Issuance and Placement Program. (ISA) for COP3.5 trillion –outlook is Stable. The company is in the process of expanding the global quota of the program to COP4.5 trillion, from COP3.5 trillion. This expansion of quota is neutral for the company's credit profile.

ISA's ratings reflect the company's low business risk profile, characteristic of its energy transmission business. The ratings also contemplate the geographic diversification of its source of income which, coupled with the high predictability of its operating cash flow, translates into a strong credit profile. They also incorporate the company's adequate liquidity and aggressive growth strategy.

## KEY FACTORS OF THE RATINGS

**Low Business Risk:**

ISA's ratings are based on its low business risk, derived from the regulated nature of its revenues and its position as a natural monopoly in the countries where it has operations. During 2016, 74% of its revenues, excluding the recognition of revenues of around COP5.5 trillion for the compensation to Companhia de Transmissão de Energia Elétrica S.A. (CTEEP), a subsidiary of ISA, came from its energy transmission business located in Colombia, Brazil, Peru and Bolivia. This behaves like a natural monopoly and is not exposed to a demand risk.

The ratings consider the periodic change of the regulatory remuneration applicable to the transmission business in Colombia. In November 2016, the National Regulatory Commission for Energy and Gas issued a regulatory proposal, which could imply some pressure on the profitability of the transmission business, as well as a larger volume of capital investments to maintain the value of the regulated base of assets.

The agency considers regulatory risk as low. Historically, regulatory agencies in Colombia have provided a balanced regulatory framework between companies and consumers. In addition, the diversification of the company's source of income is reflected in an adequate resilience to face certain adverse scenarios. Fitch will evaluate potential changes in the rate mechanism once they are established and their impact on the generation of ISA cash flow.

### Predictable Cash Flow:

The predictability of ISA's cash flow is based on the regulated nature of its main sources of income, accompanied by the absence of exposure to volumetric risk. The company's geographic and business diversification contributes to operational stability and mitigates exposure to regulatory risk.

ISA's consolidated operating cash flow will benefit in the medium term by charging more than COP5.5 trillion in 2012 values between 2017 and 2025 for the compensation recognized to CTEEP due to the early renewal of its concession in 2012. These resources are expected to help finance the company's growth strategy in Brazil.

### Aggressive Growth Strategy:

Fitch considers ISA's ambitious growth strategy. The company aims to triple the net profit recorded in 2012 by 2020. The ratings incorporate the growth strategy based on active participation in bidding processes for the awarding of energy transmission projects as well as inorganic growth through the acquisition of equity interests in companies operating in strategic ISA businesses. Fitch anticipates that the FCF generation will be under pressure in the next two years, as the company projects about COP7 trillions in capital investments between 2017 and 2018, mainly related to power transmission projects.



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## Adequate Credit Metrics:

ISA maintains an adequate financial profile, which compares positively with other energy transmission companies in the region. ISA's credit metrics reflect its strong operating cash flow generation, moderate leverage levels and adequate liquidity. Fitch expects ISA's consolidated leverage to increase to between 4x (x) and 4.5x by 2017, moving to 3.5x in the medium term, given significant capital investments in the coming years, as well as acquisitions announced for more than COP1 trillion, which are expected to be completed during 2017.

## KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for ISA include:

- ✓ Revenue incorporates the development of projects already granted to the company.
- ✓ Changes in the regulatory remuneration of the power transmission business in Colombia do not have a material effect on credit metrics.
- ✓ ISA's subsidiary CTEEP receives around COP5.5 trillion, at 2012 value, in cash compensation in annual installments from 2017.
- ✓ Capex for the next several years reflect the construction stage in new projects awarded to the company and subsidiaries;
- ✓ Leverage levels around 4x4.5x in 2017, trending at 3.5x afterward.

## SENSITIVITY OF QUALIFICATIONS

The main factors that individually or collectively could lead to a negative rating action are:

- ✓ A sustained increase in leverage above 4.5x on a consolidated or nonconsolidated basis, as a result of a progressive deterioration in its cash generation, or increased debt levels above Fitch's base case scenario;
- ✓ Regulatory changes that put significant pressures on ISA's cash flow generation;
- ✓ A change in the company's strategy that results in a more aggressive one in terms of leverage, capital expenditures or acquisitions.

## LIQUIDITY

ISA's liquidity is considered adequate and is characterized by healthy cash on hand, strong and predictable cash from operations, manageable debt amortization and adequate access to local and international capital markets.

At the end of 2016, ISA had approximately COP1.1 trillion of consolidated cash on hand, of which COP260 billion was recorded at the holding level. This compares with COP1.7 trillion in consolidated short-term debt, of which around COP147 billion was recorded at the holding level. For 2017, Fitch expects an increase in ISA's financing needs, given the pressures projected in FCF because of capex requirements and acquisitions during the year.

ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread until 2042. ISA's short-term debt represented around 13% of total debt at the end of 2016. In the medium term, the company's liquidity position is expected to remain adequate as a result of the predictability of its cash flow generation and its proven access to long-term financing sources. The generation of FCF should tend to be neutral or positive in the medium term. In April 2017, the company placed COP700 billion in local bonds with maturities up to 2042. The proceeds from the issuance will be used to finance the company's demanding consolidated investment program.

## Fitch Ratings Contacts:

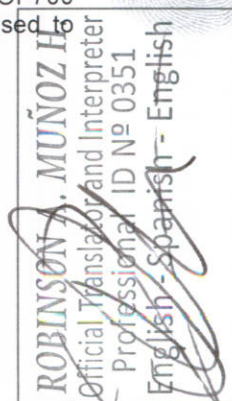
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The ratings indicated were requested by the issuer or on its behalf and, therefore, Fitch has received the corresponding fees for the provision of its rating services.

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methodologies:

Rating Methodology Non-Financial Businesses (1 March 2017); Methodology Ratings National (27 March 2017).

Summary of Adjustments to Financial Statements

Fitch excluded around COP5.5 billion from the consolidated revenues and EBITDA of 2016 from the compensation registered by CTEEP, subsidiary of ISA, in order to increase the comparability of historical and projected credit metrics.

## Attachment 1. Regulatory Information

NAME OF ISSUER OR ADMINISTRATOR	Interconexión Eléctrica S.A. E.S.P.
MINUTES NUMBER	4717
COMMITTEE DATE	10 May 2017
PURPOSE OF THE MEETING	Periodic Review
COMMITTEE MEMBERS	Alberto Moreno Arnaiz/President
	Natalia O'Byrne Cuellar
	Maria Pia Medrano
The Technical Committee Members CV may be consulted at the webpage	<a href="http://www.fitchratings.com.co/DocumentosWeb/27-04-2017%20Lista%20Comite%20Tecnico.pdf">http://www.fitchratings.com.co/DocumentosWeb/27-04-2017%20Lista%20Comite%20Tecnico.pdf</a>
The credit rating of Fitch Ratings Colombia S.A. Sociedad Calificadora de Valores constitutes a professional opinion and does not at any time imply a recommendation to buy, sell or maintain a security, nor does it constitute a guarantee of compliance with the obligations of the qualified person.	
In the cases in which it applies, Fitch Ratings considered the aspects referred to in article 4 of Decree 610 of 2002, in accordance with Article 6 of the same Decree, which are now included in articles 2.2.2.2.2. And 2.2.2.2.4, respectively, of Decree 1068 of 2015.	

## Attachment 2. Definitions of National Rating Scales

### LONG-TERM NATIONAL CREDIT RATINGS

**AAA(col).** The 'AAA' National Ratings indicate the highest rating assigned by Fitch on the national rating scale of that country. This rating is assigned to issuers or obligations with the lowest expectation of default risk in relation to all other issuers or obligations in the same country.

**AA (col).** The 'AA' National Ratings denote expectations of very low risk of default in relation to other issuers or obligations in the same country. The risk of default differs only slightly from that of issuers or obligations with the highest ratings in the same country.

**A (col).** National Ratings 'A' denote expectations of low risk of default in relation to other issuers or obligations in the same country. However, changes in economic circumstances or conditions may affect the ability to timely repay more than it would in the case of financial commitments within a higher rating category.

**BBB (col).** The 'BBB' National Ratings indicate a moderate default risk relative to other issuers or obligations in the same country. However, changes in economic circumstances or conditions are more likely to affect timely repayment capacity than in the case of financial commitments that are in a higher rating category.



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**BB (col).** The National Ratings 'BB' indicate a high risk of default in relation to other issuers or obligations in the same country. Within the context of the country, payment is to some extent uncertain and timely repayment capacity is more vulnerable to adverse economic changes over time.

**B (col).** National 'B' Ratings indicate a significantly high default risk relative to other issuers or obligations in the same country. Financial commitments are being met but there is a limited margin of safety and the ability to pay on time is conditional on a favorable and stable economic and business environment. In the case of individual obligations, this rating may indicate obligations in problems or non-compliance with a potential to obtain extremely high recoveries.

**CCC (col).** National Ratings 'CCC' indicate that non-compliance is a real possibility. The ability to meet financial commitments depends exclusively on favorable and stable economic and business conditions.

**CC (col).** The National Ratings 'CC' indicate that non-compliance of some kind seems likely.

**C (col).** National Ratings 'C' indicate that noncompliance is imminent.

**RD (col).** National Rating 'RD' indicate that in the opinion of Fitch Ratings the issuer has experienced a "restricted default" or a non-payment of unrecovered payment of a bond, loan or other material financial obligation, although the entity is not subject to Declaration of bankruptcy, administrative, liquidation or other formal dissolution processes, and has not otherwise ceased its business activities.

**D (col).** National Rating 'D' indicate an issuer or instrument in default.

**E (col).** Description: Suspended rating. Obligations that, after repeated requests of the qualifier, do not present adequate information.

*Note: The "+" or "-" modifiers can be added to a rating to denote the relative position within a particular rating category. These suffixes are not added to the 'AAA' category, or to categories below 'CCC'.*

## NATIONAL SHORT-TERM CREDIT RATINGS:

**F1 (col).** The 'F1' National Ratings indicate the strongest capacity for timely payment of financial commitments in relation to other issuers or obligations in the same country. On the Fitch National Rating scale, this rating is assigned the lowest default risk in relation to others in the same country. When the liquidity profile is particularly strong, a "+" is added to the assigned rating.

**F2 (col).** National Ratings 'F2' indicate a good capacity for timely payment of financial commitments in relation to other issuers or obligations in the same country. However, the margin of safety is not as great as in the case of the higher ratings.

**F3 (col).** National Ratings 'F3' indicate an adequate capacity for timely payment of financial commitments in relation to other issuers or obligations in the same country. However, this capacity is more susceptible to adverse changes in the short term than that of financial commitments in the higher rating categories.

**B (col).** National Ratings 'B' indicate an uncertain capacity for timely payment of financial commitments in relation to other issuers or obligations in the same country. This capacity is highly susceptible to adverse changes in short-term financial and economic conditions.

**C (col).** National Ratings 'B' indicate a highly uncertain capacity for timely payment of financial commitments in relation to other issuers or obligations in the same country. The ability to meet financial commitments depends exclusively on favorable and stable economic and business conditions.

**RD (col).** National ratings 'RD' indicate that an entity has breached one or more of its financial commitments, although it continues to fulfill other financial obligations. This category only applies to entity ratings.

**D (col).** National Ratings 'D' indicate a current or imminent payment default.

**E (col).** Description: Suspended rating. Obligations that, before repeated requests of the qualifier, do not present adequate information.

## PROSPECTS AND OBSERVATIONS OF THE RATING:

**PROSPECTS.** These indicate the direction in which a rating could possibly move within a period of one to two years. They also reflect trends that have not yet reached the level that would drive the rating change, but could do so if they continue. These can be: "Positive"; "Stable"; Or "Negative."

Most Outlooks are generally stable. Ratings with Positive or Negative Perspectives will not necessarily be modified.

**OBSERVATIONS:** These indicate that there is a greater probability that a rating will change and the possible direction of such a change. These are designated as "Positive", indicating a potential improvement, "Negative", for a low potential, or "Evolution" if the rating can rise, fall or be affirmed.

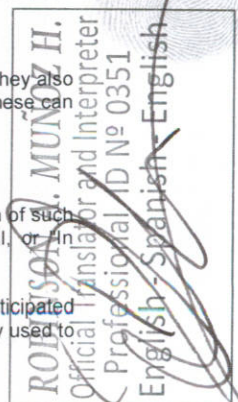
An Observation is typically driven by an event, so it is usually resolved within a short period. Such an event may be anticipated or occurred, but in both cases the exact implications for the rating are indeterminate. The Observation period is typically used to collect more information and / or use information for further analysis.

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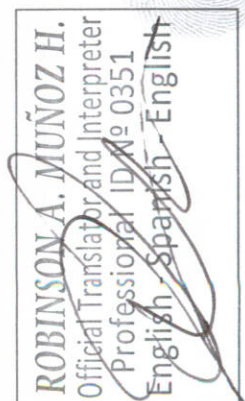
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