

### Fitch affirms in 'AAA(col)' and 'F1+(col)' ISA Securities Program Ratings

**Fitch Ratings - Bogotá - (Mayo 20, 2016):** Fitch Ratings affirmed in 'AAA(col)' the ratings of the bonds up to COP 3.3 trillion and in 'F1+(col)' the Commercial Papers up to COP 200,000 million part of the Domestic Public Debt Securities Issue and Placement Program of Interconexión Eléctrica S.A. E.S.P. (ISA) to COP 3.5 trillion. The Rating Outlook is Stable.

The rating actions consider ISA's track record of strong credit metrics, which positively compares with other companies in the power transmission segment within the region. Fitch expects that the company will maintain moderate leverage levels in the medium term, following the execution of the projects in its business plan.

ISA's ratings reflect the low business risk profile of the company, which is a characteristic of the power transmission business. The ratings incorporate the geographic diversification of its revenues source, which along with the high predictability of cash flows from operations translate into a strong financial profile.

#### KEY RATING DRIVERS

##### Low Business Risk:

ISA's low business risk is supported by its regulated revenues and natural monopoly position in the countries in which it has operations. During 2015, around 72% of the company's total revenues and 68% of its EBITDA came from its energy transmission business units in Colombia, Brazil, Peru and Bolivia. It performs as a natural monopoly and it is not exposed to demand risk. The company maintains its lead position in energy transmission in South America, with 41,885 km of circuits in operation. In Colombia, ISA controls 77.2% of the National Transmission System and it is the only operator with national coverage.

##### Limited Regulatory Risk:

The company's ratings consider the reset of the regulatory remuneration applicable to transmission business in Colombia. In February 2016, the Colombian energy regulator (CREG) issued a new regulatory proposal to review the remuneration mechanism of the transmission activity in order to have comments from the market participants. The proposal could imply some pressures in the profitability of the power transmission segment, as well as it would encourage more capex from market participants to maintain the value of the regulatory asset base.

The agency considers the regulatory risk as low. Historically, regulatory entities in Colombia have provided a fair and balanced framework for both companies and consumers. In addition, ISA's diversified source of revenues is reflected on an adequate resilience to withstand some adverse scenarios. Fitch will review the potential changes of the tariff mechanism, once determined, and any implication on ISA's cash flow generation.

##### Predictable Cash Flow:

ISA's cash flow generation is predictable, supported by the regulated nature of its main sources of revenues. The strong cash flow from operation of the company has been able to finance Capex and dividends. Reflecting in a positive free cash flow (FCF) generation in the last years. Fitch expects the company will face pressures in FCF in the next two years, as ISA has estimated capex of COP 7.6 trillion between 2016 and 2017, mostly related with power transmission projects awarded in Chile, Colombia and Peru.

##### Adequate Credit Metrics:

ISA has an adequate financial profile, which positively compares with other power transmission companies in the region. ISA's credit metrics reflects its solid cash flow generation, moderate debt levels and adequate liquidity. At the end of 2015 on a consolidated basis, ISA's financial debt was COP10.9 trillion, including the obligation of the repurchase of preferred shares in Brazil. Which implies a leverage ratio of 3.9 times (x), this ratio is considered adequate for its rating level.

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# FitchRatings

The company's ratings incorporate the expectation that leverage levels on a consolidated basis will be between 4x to 4.5x in the next two years, with a tendency to reduce leverage in the following years, depending on new projects granted to the company going forward. ISA's credit metrics will further benefit when the company starts to receive the compensation from the early renewal of its energy transmission concession in Brazil.

## Strong Liquidity Position:

ISA's liquidity is considered strong and is characterized by healthy cash on hand levels, strong cash flow from operations, manageable debt amortization and adequate access to local and international capital markets. At the end of 2015, ISA had approximately COP 1 trillion of consolidated cash, COP 2.8 trillion in cash flow from operations and COP 1,5 trillion of consolidated short-term debt. Fitch expects that, given the sizable capex requirements over the next two years, ISA would refinance most of the scheduled amortizations. The company has ample access to financial and credit markets, with available credit lines that reach COP 2.3 trillion at ISA's level.

The ISA maturity profile of the financial debt is manageable with amortizations planned until 2041. ISA's short-term debt represented 14% of ISA total debt at the end of 2015. In the medium term, ISA's liquidity position is expected to remain adequate as a result of the company's stable cash flow generation and its proven access to long-term financing.

## KEY ASSUMPTIONS

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

- Revenues growth incorporate the development of projects already granted to ISA;
- Changes in the regulatory remuneration of power transmission business in Colombia do not have a material impact over ISA's credit metrics;
- Capital investments incorporate the construction stage of the projects already granted to ISA and its subsidiaries;
- leverage levels between 4x and 4.5x between 2016 and 2017.

## RATING SENSITIVITIES

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

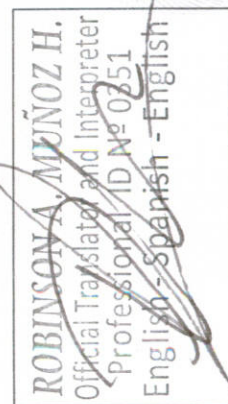
- a sustained increase in leverage above 4,5x on a consolidated or individual level, as a result of a progressive deterioration in its cash generation or increase debt levels above Fitch's base case scenario;
- regulatory changes that put significant pressures over ISA's cash flow generation;
- a more aggressive growing strategy that means important increases of capital investment and leveraging.

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The aforementioned ratings were requested by the issuer or on its behalf, and therefore, Fitch has received the corresponding fees due to the rendering of its rating services.

Additional information is available at [www.fitchratings.com](http://www.fitchratings.com) and [www.fitchratings.com.co](http://www.fitchratings.com.co)

Rating Technical Committee Date: 19 May, 2016.

Minutes Number: 4373

Committee Objective: periodic revision

Rating definition: The rating 'AAA(col)' represents the maximum rating appointed by Fitch in its domestic rating scale. This rating is given to the best credit quality in regards to other issuing of the country and normally it corresponds to the financial obligations issued or guaranteed by the government.

The short-term rating 'F+(col)' means high credit capacity. It indicates the strongest capacity for timely payment of financial commitments relative to other issuers or domestic issues. Under the domestic rating scale of Fitch Colombia, this category is assigned to the best credit quality in regards to all other risk in the country, and it is normally assigned to issued financial commitments or guaranteed by the government. When the issue or issuer characteristics are solid, a "+" sign is added to the category.

Applicable Methodology:

- Non Financial Companies Rating Methodology (19 December 2014).

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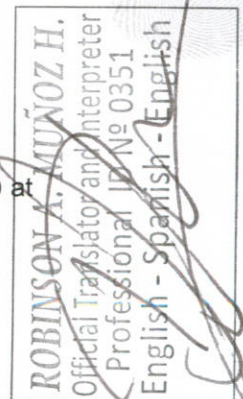
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