Interconexión Eléctrica S.A. E.S.P.

Rating report

Ratings

National

Internal Public Debt Securities Issuance and Placement Program	AAA(col)
Short term	F1+(col)

Rating Outlook

Long-term National-stable

Financial Summary

Interconexión Eléctrica S.A. E.S.P

COP Billions	Dec 31 2016	Dec 31 2015
Sales	6.611	5.271
EBITDA	3.288	2.797
EBITDA margin(%)	49,7	53,1
Funds from operations (FFO)	8.406	2.047
Free Cash Flow	(1.003)	117
Current investment cash	1.119	1.029
Total Debts	12.567	10.922
Total Debts/EBITDA (x)	3,8	3,9
Total Debts/ FFO (x)	1,4	4,1
EBITDA /Interest (x)	3,7	3,8

X: Times
Source: Company`s report

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Key Rating Drivers

Low-Risk Business: ISA's (Interconexión Eléctrica S.A. E.S.P.) ratings are based on its low-risk business, derived from the regulated nature of its revenues and its position as a natural monopoly in the countries where it operates. During 2016, 74% of its revenues, excluding revenues recognition of COP5.5 trillion for the compensation to Companhia de Transmissao de Energia Elétrica Paulista S.A. (CTEEP), a subsidiary of ISA, came from its energy transmission business located in Colombia, Brazil, Peru and Bolivia. This business line acts as a natural monopoly with no exposure to demand risk.

Predictable Cash Flow: ISA's cash flow generation is predictable, supported by the regulated nature of its main sources of revenues. The geographic and business diversification contributes to operational stability and company mitigates its exposure to regulatory risk. Its cash flow form operations will benefit in the medium term by charging COP5.5 trillion in terms of 2012 values, 2017 and 2025 for the compensation recognized to CTEEP due to the early renewal of its concession in 2012.

Aggressive Growth Strategy: Fitch Ratings considers ISA's ambitious growth strategy. By 2020, the company targets to triple the net profit recorded in 2012. ISA's ratings incorporates a growing strategy based on its active participation in bidding processes for the awarding of energy transmission projects, as well as inorganic growth through the acquisition of stakes in companies that operate in ISA's core business.

Adequate Credit Metrics: ISA maintains an adequate financial overview, which compares positively with other transmission companies in the region. ISA's credit metrics reflect its strong operating cash flow generation, moderate debts levels and adequate liquidity. Fitch expects ISA's consolidated leverage will be rise between 4 times (x) and 4.5x by 2017, trending toward 3.5x in the medium term, given significant capital expenditures in the coming years, as well as acquisitions announced for more than COP1 trillion, which are expected to be completed during 2017.

Adequate Liquidity: ISA's liquidity is considered adequate and is characterized by healthy cash on hand, strong cash from operations, manageable debt amortization and adequate access to local and international capital markets. For 2017, Fitch expects an increase in ISA's financing needs, given the pressures projected in FCF because of capex requirements, as well as the acquisitions announced during the year. In the absence of additional investments, the FFL should turn neutral or positive in the medium term.

Rating Sensitivities

The main factors that individually or collectively could lead to a negative rating action include a sustained increase in leverage above 4,5x on a consolidated or non-consolidated basis; regulatory changes that put significant pressures on ISA's cash flow generation and a more aggressive growth strategy that entails important increases of capital expenditures, acquisitions and leverage.

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Debt maturities

(COP million, December 31, 2016)	
2017	1.564.280,7
2018	1.516.791,9
2019	1.754.618,7
2020	2.519.984,4
2021	n.a.
After five years	5.115.748,7
Total maturities	**12.471.424,5**

n.a.:not available.
Source: ISA and Fitch's calculations.

Financial Overview

Liquidity and debt structure

ISA's financial debt maturity profile is manageable with amortizations schedule until 2042. At the end of 2016, the short-term debt represented around 13% of the total debt at the consolidated level. In the medium term, it is expected that the liquidity remains adequate as a result of the generation of stable cash flow from operations and the access to long term financing. ISA has adequate access to national and international capital markets. In April 2017, the company placed COP700 billion in local bonds with maturities up to 25 years, improving its maturity profile.

Aligned with Fitch's expectations, EBITDA's increase, after the expansion of its asset base in the transmission business, maintained stable leverage levels, in spite of capex increases for the construction of infrastructure projects. At the closing of 2016, in consolidated terms, the financial debt was approximately COP12.5 trillion. The EBITDA, excluding revenue recognition of COP5.5 trillion of its subsidiary CTEEP, closed in COP3.3 trillion. As a consequence, the leverage reached 3.8x, an adequate level for the ratings category.

Fitch expects that ISA's leverage, in a consolidated term, is within 4x and 4.5x tending to decrease in the coming years, which depends on the new projects awarded to the company in the future.

Liquidity Summary

(COP million, years until December 31st)	2015	2016
Total Cash and cash equivalents	1.029.250,0	1.167.353,0
Short term investments	0,0	215.570,0
Less: Unavailable cash and equivalents	0,0	263.106,0
Cash and equivalents defined by Fitch	**1.029.250,0**	**1.119.817,0**
Availability under committed credit lines	0,0	0,0
Total liquidity	**1.029.250,0**	**1.119.817,0**
Plus: FCF Fitch projection (Post Dividends)	—	(1.845.397,9)
Total projected liquidity 2017	—	**(725.580,9)**
Liquidity level	—	0,3
EBITDA LTM	2.796.699,0	3.287.798,0
FCF LTM	116.594,0	(1.003.048,0)

FCF: Free Cash Flow. LTM: last 12 months.
Source: ISA and Fitch calculations.

Cash Flow Analysis

ISA and its subsidiaries are an integrated group of companies. In some opportunities, ISA has supported its subsidiaries through intercompany loans, and it has directly supported project's evolution of subsidiaries. In addition, ISA entirely controls the entities representing more than 50% of consolidated income and EBITDA. For the other companies, ISA controls between 60% and 70% of the share capital.

During 2016, ISA registered adjusted income for COP6.6 trillion. This was driven by the commencement of operations of new transmission assets, the increase of regulated asset base and the higher growth of producer price index, which is pegged to the regulated income of the company. The diverse income sources reflect adequate strength to resist some adverse regulatory scenarios in the country where the company operates.

In consolidated terms, the company has a diversified source of income both geographically and per business units. Besides, 74% of income and EBITDA derives from energy transmission, which is a regulated business without demand risk, which provides a predictable and stable cash flow generation. The execution of a considerable capex in the next two years associated with recent

Related methodologies

Rating methodology for non-financial companies (May 25th, 2017).

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transmission projects could put some pressure on the generation of FCF. ISA's growth strategy includes the active participation in bidding processes for transmission projects in selected countries in the region and the acquisition of shares in companies operating in the same regulated industries as ISA's. In the medium term, the FCF will depend on the number and size of projects awarded to the company.

Foreign Currency Exposure

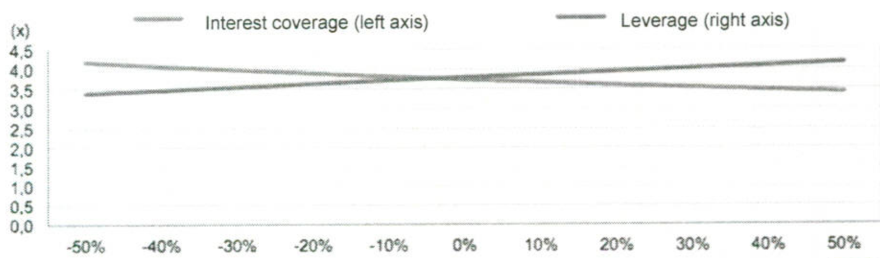
Fitch FX Screener chart shows the estimates of the agency in local currency and foreign currency in the long and short term for ISA, together with EBITDA interest coverage and EBITDA leverage indicators. More than showing figures, the chart expresses relative proportions, acknowledging the calculation limitations of currency divisions for a given period.

Fitch analysts make estimates, sometimes using information of the company, such as actual income in foreign currency or income linked to foreign currency in relation to the costs. In the debt columns, the short-term debt in foreign currency (usually United States dollars) stands out, because in a volatile foreign currency market, this debt has to be paid in foreign currency, using cash or refinancing it in the bond market or banks.

ISA has some exposure to foreign currency risk, as the consolidated financial debt consists of 30,9% in dollars, 20% in Colombian pesos and the rest in different Latin-American currencies. The company does not have material financial coverage, as it tries to match the cash flow with the debt in each currency. The foreign currency exposure is partially mitigated by the income in dollars, mainly from Peru and some income in Colombia derived from the auction process of the UPME (Mining and Energy Planning Unit).

FX Screener –Foreign currency to local currency stress test –Absolute variations

(COP million, last 12 months until December 2016)



Note: EBITDA after dividends
Source: Fitch

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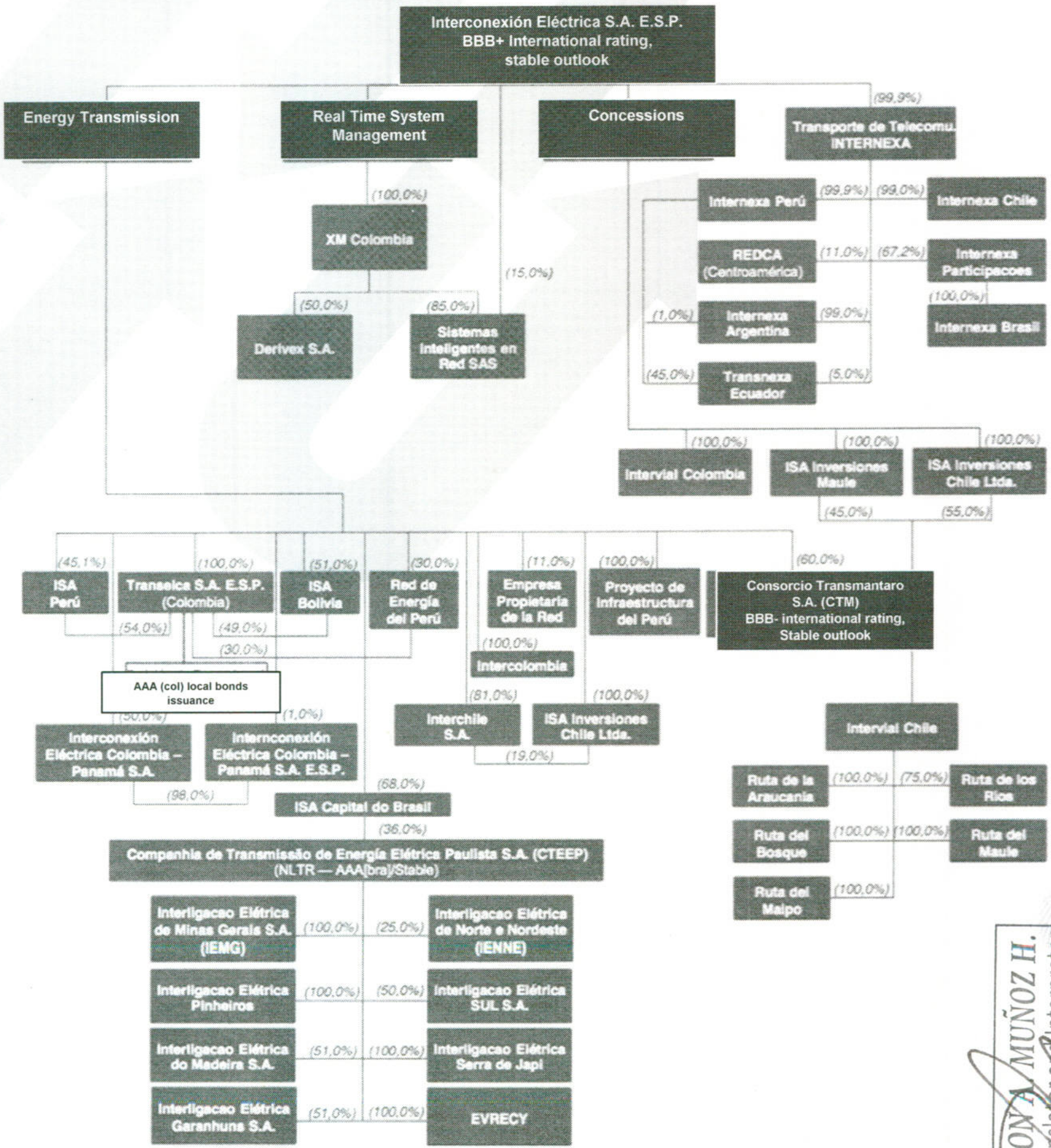
Corporate Structure – Interconexión Eléctrica S.A. E.S.P.

(As of December 31, 2016)



SOURCE: ISA

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Interconexión Eléctrica S.A. E.S.P

Main projection assumptions

Fitch's expectations are based on conservative rating projections internally produced by the rating agency. They do not represent the predictions of qualified issuing agencies, neither individually nor combined.

The key assumptions of Fitch's projections include:

Income includes the execution of projects already awarded to the company;

- Changes in the regulation of energy transmission business in Colombia do not have a material effect on the credit metrics;
- Capex for the coming years reflects the construction of new projects awarded to the company and its subsidiaries;
- The leverage levels around 4x in 2017 tending to be lower than 4x.

	Historical		Fitch projections		
(COP million)	Dec 31 2015	Dec 31 2016	Dec 31 2017	Dec 31 2018	Dec 31 2019
Income statement summary					
Net income	5.270.649	6.610.536	7.069.172	7.476.108	7.867.886
Income growth (%)	34,4	25,4	6,9	5,8	5,2
Operating EBITDA	2.796.699	3.287.798	3.852.211	4.671.997	4.919.158
Operating EBITDA margin (%)	53,1	49,7	54,5	62,5	62,5
Operating EBITDAR	2.796.699	3.287.798	3.852.211	4.671.997	4.919.158
Operating EBITDAR margin (%)	53,1	49,7	54,5	62,5	62,5
Operating EBIT	2.281.129	2.750.830	3.091.345	3.839.552	4.068.058
Operating EBIT margin (%)	43,3	41,6	43,7	51,4	51,7
Gross financial interests	(952.822)	(1.024.706)	(1.023.793)	(1.248.366)	(1.202.969)
Income before tax	1.480.332	7.469.893	2.067.552	2.591.186	2.865.089
Balance sheet summary					
Available cash	1.029.250	1.119.817	1.531.323	1.614.270	1.636.263
Total debt with equity credit	10.922.279	12.471.424	16.907.144	16.590.352	15.235.734
Total adjusted debt with equity credit	10.922.279	12.567.380	16.907.144	16.590.352	15.235.734
Net debt	9.893.029	11.351.607	15.375.821	14.976.082	13.599.471
Cash Flow Summary					
Operating EBITDA	2.796.699	3.287.798	3.852.211	4.671.997	4.919.158
Recurring dividends from associated companies less minority interest distributions			61.801	103.021	106.092
Interests paid in cash	(741.549)	(879.919)	(1.023.793)	(1.248.366)	(1.202.969)
Implicit financing cost (%)	7,3	7,5	7,0	7,5	7,6
Effective interest received	111.596	54.603	0	0	0
Taxes paid in cash	(502.850)	(75.436)	(587.985)	(659.292)	(775.503)
Other items before FFO	382.755	6.019.850	0	0	0
Funds from operations (FFO)	2.046.651	8.406.896	2.302.234	2.867.360	3.046.778
FFO margin (%)	38,8	127,2	32,6	38,4	38,7
Change in working capital	107.254	(6.726.313)	70.528	(125.368)	(120.698)
Operating Cash Flow (OCF)	2.153.905	1.680.583	2.372.762	2.741.992	2.926.079
Total Non-Operating/Non-recurring cash flow					
Capex (Capital expenditure)	(1.740.453)	(2.364.620)			
Capital intensity (Capex/revenue) (%)	33,0	35,8			
Common dividends	(296.858)	(319.011)			
Net acquisitions & divestitures					
Capex, dividends, acquisitions & other items before FCF	(2.037.311)	(2.683.631)	(6.660.081)	(2.342.253)	(1.549.468)
Free cash flow after acquisitions & divestitures	116.594	(1.003.048)	(4.287.319)	399.739	1.376.611
Free cash flow margin (after net acquisitions) margin (%)	2,2	(15,2)	(60,6)	5,3	17,5
Other investing and financing cash flow items	(36.051)	(92.929)	263.106	0	0
Change in net debt	(364.923)	1.234.080	4.435.719	(316.792)	(1.354.619)
Change in net capital			0	0	0
Change in cash and equivalents	(284.380)	138.103	411.506	82.947	21.992
Coverage ratios(x times)					
FFO/gross interest coverage	3,6	10,5	3,2	3,3	3,5
FFO/Fixed charge coverage	3,6	10,5	3,2	3,3	3,5
Operating EBITDAR/gross interest expense + rents [a]	3,8	3,7	3,8	3,8	4,2
Operating EBITDA/gross interest expense [a]	3,8	3,7	3,8	3,8	4,2
Leverage ratios (x times)					
Total adjusted debt/operating[a] EBITDAR	3,9	3,8	4,3	3,5	3,0
Total adjusted net debt/operating[a] EBITDAR	3,5	3,5	3,9	3,1	2,7
Total adjusted debt with equity credit/operating[a] EBITDA	3,9	3,8	4,3	3,5	3,0
FFO adjusted debt	4,1	1,4	5,1	4,0	3,6
FFO adjusted net debt	3,7	1,2	4,0	3,3	2.7

[a] EBITDA/R after dividends of associated companies less minorities distributions.

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