



Fitch Affirms Interconexión Eléctrica SA's IDR at 'BBB' & Nat'l Ratings at 'AAA(col)'; Outlook Stable Ratings

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Fitch Ratings-Chicago-26 May 2015: Fitch Ratings has affirmed Interconexión Eléctrica S.A. E.S.P.'s (ISA) foreign and local currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed Interconexión Eléctrica's local bonds listed at the end of this release at 'AAA(col)' and 'F1+(col)'. The Rating Outlook is Stable.

ISA's ratings reflect the low business risk profile of the company, which is a characteristic of the power transmission business. The ratings also incorporate the geographic diversification of the company's cash flow generation. Also factored in the ratings are the company's stable and predictable cash flows and robust liquidity levels, which in turn translate into a strong financial profile. ISA's ratings incorporate the expectations that the company will be able to complete the aggressive capital expenditures scheduled for the next few years and maintain credit metrics consistent with the rating category.

KEY RATING DRIVERS

Low Business Risk

ISA's ratings reflect the company's low business risk profile supported by its regulated income and natural monopoly position in the countries in which it has operations. During 2014, 70% of the total revenues of the company on a consolidated basis came from its energy transmission business unit, located in Colombia, Brazil, Peru and Bolivia, which performs as a natural monopoly and it is not exposed to demand risk. The company maintains its lead position in the energy transmission in South America, with 41,650 km of circuits in operation. In Colombia, ISA controls 79.6% of the National Transmission System and it is the only operator with national coverage.

In Colombia, regulated tariff for the energy transmission system is reset every five years. In February 2015, the Colombian energy regulator (CREG) issued a regulatory proposal to review the remuneration mechanism of the transmission activity, which is still in revision by the market participants. Historically, all regulatory entities in Colombia have been independent from central government and have provided a fair and balanced framework for both companies and consumers. Therefore, Fitch considers regulatory risk as low. Fitch will review the potential changes of the tariff mechanism once it is determined, and any implication on ISA's cash generation.

Predictable Cash Flow Generation

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 reflected in a positive free cash flow (FCF) generation in the last years. In the medium term, Fitch expects the company will face pressures in FCF in the next two years because of the increasing capital expenditures requirements, as the company and its subsidiaries were awarded projects that involve investments of approximately USD 1.2 billion and will imply the construction of 1,680 km of additional high voltage circuits.

Adequate Credit Metrics

ISA has an adequate financial profile, which is characterized by solid cash flow generation, moderately debt levels and robust interest coverage. During 2014 on a standalone basis (at the holding company), ISA reported financial debt of COP 1,384 billion while individual EBITDA was COP 667 billion, which implies a leverage ratio of 2.1x. This ratio is considered strong for its rating level.

ISA's consolidated credit metrics continued to be affected by the increase in debt following the company's acquisition of Intervial in Chile and its concessionaries and the EBITDA reduction of its subsidiary in Brazil, due to the early renewal of its energy transmission concession. The company is still discussing with the Brazilian regulator about the amount of the final compensation and the terms of payment for the existing assets of the former concession. At year-end 2014, consolidated adjusted debt was COP 10.2 trillion, including the obligation of the repurchase of preferred shares in Brazil, resulting in a gross leverage ratio of 4.6x. Ratings incorporate

the expectation that leverage levels on a consolidated basis will remain between 4x to 4.5x in the medium term.

Strong Liquidity Position

ISA's liquidity is considered strong and is characterized by healthy cash on hand levels, manageable debt amortization and adequate access to local and international capital markets. At the end of 2014, ISA had approximately COP 1,899 billion of consolidated cash on hand, and COP 809 billion of consolidated short-term debt. ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread between 2014 and 2041. ISA's short-term debt represented 8.6% of total debt at the end of 2014. In the medium term, ISA's liquidity position is expected to remain solid as a result of the company's stable cash flow generation and its proven access to long-term financing under adequate conditions.

KEY ASSUMPTIONS

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

- Revenues incorporate new projects awarded by the company that started their construction phase in 2015
- Capital expenditures increase reflect the construction stage in the new projects awarded by ISA and its subsidiaries.
- ISA obtained long term financing to partially fund the increase in capital expenditures
- Leverage levels remain between 4x to 4.5x in the medium term

RATING SENSITIVITIES

Fitch considers a positive rating action unlikely in the near term. However, a sustainable consolidated leverage below 3.0x, coupled with maintaining a stable and predictable cash flow generation profile could lead to a Positive Rating Outlook or upgrade.

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 non-consolidated basis, as a result of a progressive deterioration in its cash generation or high debt requirements increase debt levels above Fitch's base case scenario;
- Significantly negative regulatory changes that impact the financial performance of the company could result in a negative rating action.

FULL LIST OF RATING ACTIONS

Fitch affirms ISA's COP 3.5 trillion local bonds and commercial paper program as follows:

- COP\$3.3 trillion bond program at 'AAA(col)';
- COP\$200 billion commercial paper program at 'F1+(col)'.

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Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 28 May 2014)

Additional Disclosures

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