

Interconexion Electrica S.A. E.S.P.

Full Rating Report

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Local Currency	
Long-Term IDR	BBB+
COP3.3 Trillion Bond Program	AAA(col)
COP200 Billion Commercial Paper Program	F1+

IDR – Issuer Default Rating.

Rating Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable

Financial Data

Interconexion Electrica S.A. E.S.P.

(COP Mil.)	12/31/15	12/31/14
Revenue	5,271	3,921
EBITDA	2,797	2,233
EBITDA Margin (%)	53.1	56.9
FFO	2,677	1,935
FCF	747	1,065
Cash and Market Securities	1,029	1,899
Total Adjusted Debt	10,922	10,249
Total Adjusted Debt/EBITDAR (x)	3.9	4.6
FFO-Adjusted Leverage (x)	3.3	4.6
Op. EBITDAR/ (Interest Paid + Lease Expense) (x)	2.9	3.5

Note: 2014 reported under COLGAAP; 2015 reported under IFRS.

Related Research

[Fitch Upgrades ISA's IDR to 'BBB+'; Outlook Stable \(May 2016\)](#)

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Key Rating Drivers

Low Business Risk: Interconexion Electric S.A. E.S.P.'s (ISA) low business risk is supported by its regulated revenues and natural monopoly position in the countries in which it operates. During 2015, about 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, which perform as a natural monopoly and are not exposed to demand risk.

Limited Regulatory Risk: The company's ratings consider the reset of the regulatory remuneration applicable to the transmission business in Colombia. In February 2016, the Colombian energy regulator issued a new proposal to review the remuneration mechanism for transmission activity in order to receive comments from the market participants. The proposal could lead to some pressures in the power transmission segment's profitability, as well as encouraging more capex from participants to maintain the value of the regulatory asset base.

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 operations (CFFO) of the company has been able to finance capex and dividends, reflected in positive FCF generation over the last several years. Fitch Ratings expects the company will face FCF pressures in the next two years, as ISA has estimated capex of COP7.6 trillion from 2016 to 2017, mostly related to power transmission projects in Chile, Colombia and Peru.

Adequate Credit Metrics: ISA has an adequate financial profile that positively compares with other power transmission companies in the region. ISA's credit metrics reflect its solid cash flow generation, moderate debt levels and adequate liquidity. At 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 3.9x. This ratio is considered adequate for the rating level.

Strong Liquidity Position: ISA's liquidity is considered strong and is characterized by healthy cash on hand levels, strong cash from operations, manageable debt amortization and adequate access to local and international capital markets. At the end of 2015, ISA had approximately COP1 trillion of consolidated cash, COP2.8 trillion in CFFO and COP1.5 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.

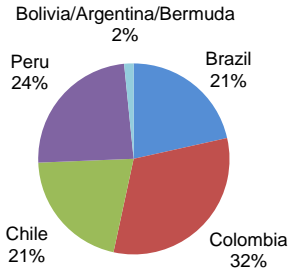
Rating Sensitivities

Negative Rating Action: 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 an increase debt levels above Fitch's base case scenario; regulatory changes that put significant pressures on cash flow generation; a change in the company's direction that results in a more aggressive strategy in terms of leverage, capex or acquisitions.

Positive Rating Action: A positive rating action is not likely in the short to medium term given the company's current credit metrics and its growth strategy.

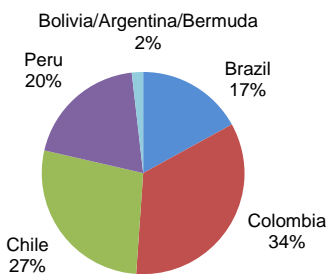
Financial Overview

Revenue Generation by Country — 2015



Source: Interconexión Eléctrica S.A. E.S.P.

EBITDA Generation by Country — 2015



Source: Interconexión Eléctrica S.A. E.S.P.

Liquidity and Debt Structure

ISA's debt maturity profile is manageable; its long-term debt amortization schedule is spread until 2041. ISA's short-term debt represented 14% of 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. The company has ample access to financial and credit markets, with available credit lines that reach COP 2.3 trillion at ISA's level.

In line with Fitch expectations, the increase in EBITDA following the expansion in the asset base in the transmission business, as well as the positive effect of a higher Producer Price Index (PPI), led to a decrease in leverage. At end of 2015, on a consolidated basis, ISA's financial debt was COP 10.9 trillion, including COP 638.5 billion in preferred shares with repurchase agreement that Fitch considers as debt. Consequently, leverage decreased to 3.9x at end of 2015, an adequate level for its rating category.

Fitch expects that ISA's leverage levels, on a consolidated basis, will be between 4.0x–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. ISA's credit metrics will benefit further when the company starts to receive the compensation from the early renewal of its energy transmission concession in Brazil.

ISA has some exposure to foreign currency (FC) risk. ISA's financial debt, on a consolidated basis, consists of Colombian pesos (18%), U.S. dollars (27%) and the balance in different Latin American currencies. The company has no material financial hedge as it tries to match cash flow with debt obligation in each currency. The FC exposure is partially mitigated by revenues denominated in U.S. dollars, mainly from Peru and some revenues in Colombia that come from the auction process of the Colombian mining and energy planning unit.

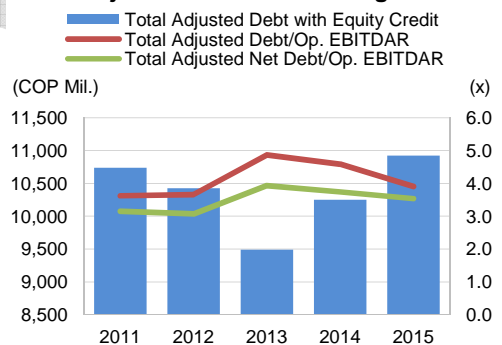
Debt Maturities and Liquidity

(COP Mil., As of Dec. 31, 2015)

Current Maturity	1,540,247
Two Year	756,107
Three Year	725,661
Four Year	766,085
Five Year	930,678
Beyond Five Years	6,203,501
CFFO	2,783,858
Cash	1,029,250
Undrawn Committed Facilities	0

Source: Company reports.

Total Adjusted Debt and Leverage Ratios



Source: Interconexión Eléctrica S.A. E.S.P.

Cash Flow Analysis

ISA and its subsidiaries are a well-integrated group of companies. ISA has, at times, supported the subsidiaries through subordinated intercompany loans and direct support for project developments in their subsidiaries. In addition, ISA fully controls companies that represent about 55% of revenues and 64% of the consolidated EBITDA. For the other companies, ISA controls between 60%–70% of the total equity.

During 2015, ISA recorded revenues of COP5.3 trillion, driven by the start of operation of transmission assets that increase the regulatory asset base, as well as the higher growth of the

Related Criteria

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

PPI, which adjusts the company regulated revenues. ISA started the operation of 340 km of transmission projects valued at USD400 million. In addition, revenues are boosted by construction activities in concession contracts (Peru, Chile, Brazil) which must be recorded in revenues and costs according to IFRS standards. ISA's diversified sources of revenues reflect adequate resilience to withstand some adverse regulatory scenarios in the countries where it operates.

On a consolidated basis, ISA has diversified its sources of revenues, both geographically and by business units. Having around 70% of its revenues and EBITDA from energy transmission, which is a regulated business with no demand risk, makes the cash flow generation predictable and stable. Variations have been recorded because of the early renewal of the Companhia de Transmissão de Energia Elétrica Paulista S.A. (CTEEP; AA+(bra) Stable) concession in 2013. The execution of sizable capex in the next two years associated with recent transmission projects is likely to reflect in some pressures in FCF generation. ISA's growth strategy includes its active participation in bidding processes for transmission projects in selected countries in the region. In the medium term, FCF will depend on the number and size of projects granted to the company.

Peer and Sector Analysis

Issuer Rating History

Date	Action	LT IDR (FC)	Outlook/ Watch
May 20, 2016	Upgrade	BBB+	Stable
May 26, 2015	Affirmed	BBB	Stable
May 28, 2014	Affirmed	BBB	Stable
May 30, 2013	Upgrade	BBB	Stable
June 1, 2012	Affirmed	BBB-	Positive
June 3, 2011	Affirmed	BBB-	Stable
Oct. 25, 2010	New Rating	BBB-	Stable

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch Ratings.

Peer Group Analysis

(USD Mil.)	Consortio Transmantaro S.A. (CTM)	Transelec S.A.	Transmissora Alianca de Energia Eletrica S.A.	Empresas Publicas de Medellin E.S.P. (EPM)	Empresa de Energia de Bogota S.A. E.S.P. (EEB)	Interconexion Electrica S.A. E.S.P.
LTM as of	12/31/15	12/31/15	12/31/15	12/31/15	12/31/15	12/31/15
Long-Term IDR Outlook	BBB- Rating Outlook Stable	BBB Rating Outlook Stable	BB+ Rating Outlook Negative	BBB+ Rating Outlook Stable	BBB Rating Outlook Stable	BBB+ Rating Outlook Stable

Financial Statistics

Revenue	262	423	463	5,064	1,246	1,920
Revenue Growth (%)	36.8	10.5	3.1	18.1	31.6	25.0
Operating EBITDAR	96	353	447	1,318	858	1,019
Operating EBITDAR Margin (%)	36.8	83.4	96.5	26.0	68.9	53.1
FCF	(79)	17	173	(561)	(133)	272
Total Adjusted Debt with Equity Credit	610	1,921	905	4,821	2,831	3,468
Readily Available Cash and Equivalents	3	34	55	425	365	327
FFO	106	295	393	963	926	1,122
Capex	(154)	(122)	(2)	(1,316)	(415)	(634)

Credit Metrics (x)

Op. EBITDAR/(Interest Paid + Lease Expense)	3.5	4.0	4.3	27.9	5.1	2.9
FFO Fixed-Charge Coverage	4.4	4.2	4.6	20.4	6.3	3.9
Total Adjusted Net Debt/EBITDAR	6.3	5.3	1.9	3.3	2.9	3.1
FFO-Adjusted Leverage	5.0	5.2	1.9	5.0	2.7	2.5

IDR – Issuer Default Rating.
Source: Fitch.

Company Profile

ISA is a holding company that, directly and through its 33 affiliates and subsidiaries, focuses its activities on electric power transmission, road concessions, telecommunications transmission and intelligent management of real-time systems. The company maintains operations in eight countries in Latin America. It has been diversifying its business from a pure electric transmission company to incorporate the other three businesses. In 2013, the company created Intercolombia, a subsidiary in charge of the operation and maintenance of the electricity network in Colombia, while ISA is focusing on the strategic issues of all the companies within the group.

ISA is a state-owned company in which the government directly holds 51.4% of the total shares, Ecopetrol S.A. owns 1.2% and Empresas Publicas de Medellin E.S.P. owns 10.2%, while the remainder is spread throughout the market. The company's shares trade in the local stock market and its American Depositary Receipt in the United States.

Power Transmission

ISA's main business is power transmission, which is composed of 19 companies located in Colombia, Peru, Central America, Bolivia, Brazil and Chile. The company maintains its leading position in energy transmission in South America, with 41,885 km of circuits in operation.

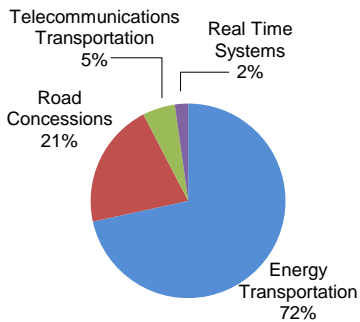
In Colombia, ISA controls 77.2% of the national transmission system and it is the only operator with national coverage. Through its subsidiaries, ISA expands, operates and maintains high-voltage energy transmission systems. This is a natural monopoly, regulated business, with predictable revenues and no exposure to volumetric risk.

In Colombia, the government remunerates this business through periodic payments based on a discount rate and the regulated asset base. The company's growth strategy in this business is focused on participating in bid processes sponsored by the government in order to expand its energy networks. ISA has a portfolio of projects under construction that reach USD2.6 billion in capex. In addition, during 2015, it was granted USD770 million in new projects. This business recorded COP3.8 trillion in revenues and COP2 trillion in EBITDA during 2015.

ISA's business has exposure to Brazil, mostly in the power transmission business. At end of 2015, 21.4% of revenues and 17% of consolidated EBITDA came from Brazilian operations. The company has a 68.2% stake in ISA Capital do Brazil S.A., (FC Issuer Default Rating BB+/Negative), a holding company with a sole operating asset and dividend source of a 37.2% stake in CTEEP. Its ratings reflect its strong credit quality, attributable to the low business risk of the power transmission sector in Brazil, with predictable operating cash flow.

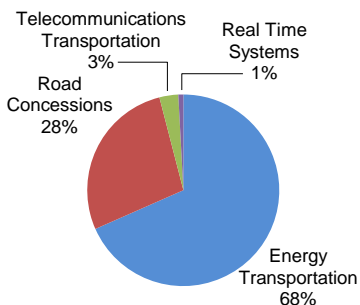
Fitch has downgraded Brazil three times since 2015. Currently Fitch rates Brazil at 'BB', Outlook Negative. ISA's exposure to Brazil is mitigated because of the stability of the power transmission business, with no exposure to volumetric risk. The company operates concessions that were renewed for 30 years in 2013. Given the early renewal of the concession, the company is waiting on receiving the pending compensation for the remuneration of the existing assets.

Revenue Generation by Business Unit



Source: Interconexion Electrica S.A. E.S.P.

EBITDA Generation by Business Unit



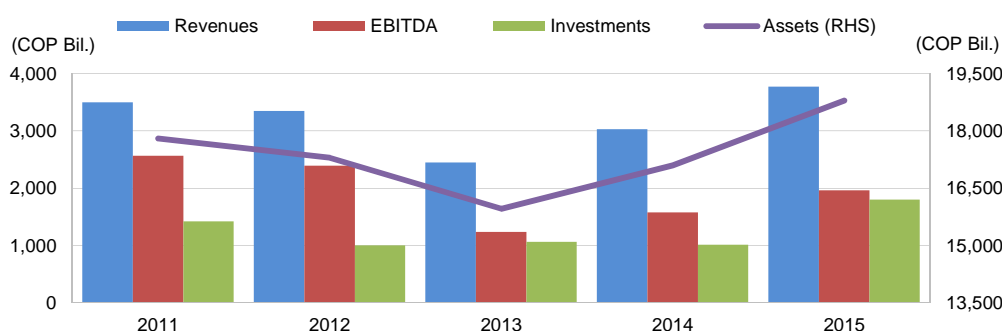
Source: Interconexion Electrica S.A. E.S.P.

Transport Networks for Energy

Country	Company	Operational Network(Km)	Operating (MWA)	Availability (%)
Colombia	ISA	10,309	14,706	99.94
Colombia	TranSelca S.A. E.S.P.	1,586	3,983	99.83
Peru	Red Eléctrica del Perú	6,309	2,718	99.52
Peru	Consorcio Transmantaro S.A. (CTM)	3,181	5,836	99.75
Peru	Interconexión Eléctrica ISA Perú S.A.	393	265	99.83
Bolivia	Bolivia S.A.	587	470	99.55
Brazil	CTEEP	19,050	46,587	99.96
Brazil	Interligação Elétrica de Minas Gerais S.A. -IEMG-	172	—	—
Brazil	Interligação Elétrica Pinheiros S.A. -IE PINHEIROS-	6	4,200	—
Brazil	Interligação Elétrica Serra do Japi S.A.	137	1,600	—
Brazil	Evrecy Participações Ltda.	154	450	—
Total	—	41,884	80,815	—

MWA – Megavolt Amper. ISA – Interconexión Eléctrica S.A. E.S.P. CTEEP – Companhia de Transmissão de Energia Elétrica Paulista S.A.
Source: ISA.

Energy Transport Business

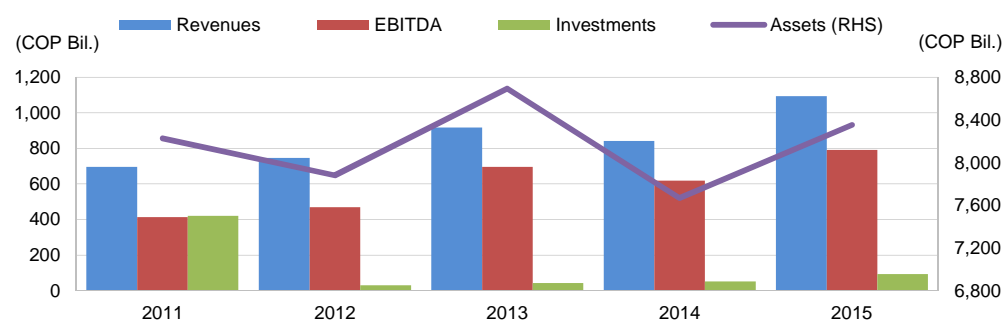


Note: 2011–2013 reported under COLGAAP; 2014–2015 reported under IFRS.
Source: Interconexión Eléctrica S.A. E.S.P.

Road Concession

ISA participates in road concession through the structure, design, construction, operation and maintenance of road infrastructure. ISA is responsible for the operation and administration of five adjacent concessions from Santiago to Ciudad de Rio Bueno, in Chile. Intervial Chile, through these five assets, is the largest operator of inter-urban roads in the country. ISA officially entered into this business with Cintra Chile's acquisition in September 2010.

Road Concessions Business

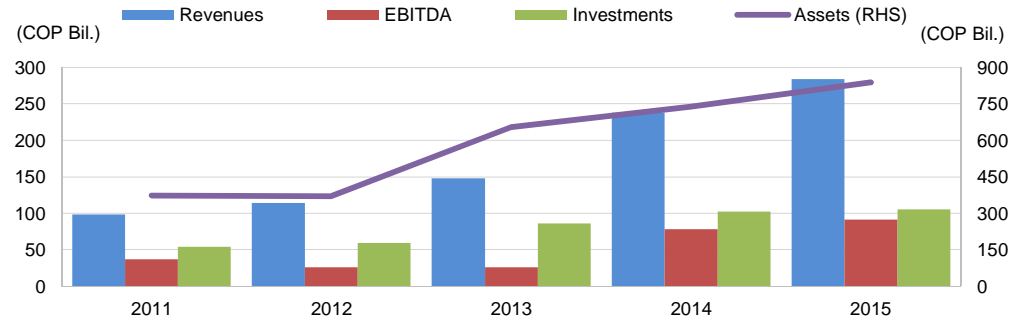


Note: 2011–2013 reported under COLGAAP; 2014–2015 reported under IFRS.
Source: Interconexión Eléctrica S.A. E.S.P.

Telecom Transportation

ISA participates in telecom transportation through its subsidiary Internexa. Internexa has operations in Colombia, Ecuador, Peru, Chile, Argentina, Brazil and Venezuela. ISA has a strong business position as the major network operator in South America. Its goal is to connect Central and South America through a continuous fiber optic cable. ISA's connectivity infrastructure is based on a fiber optic network of almost 27,000 km that connect seven countries across more than 63 cities.

Telecommunications Transport Business

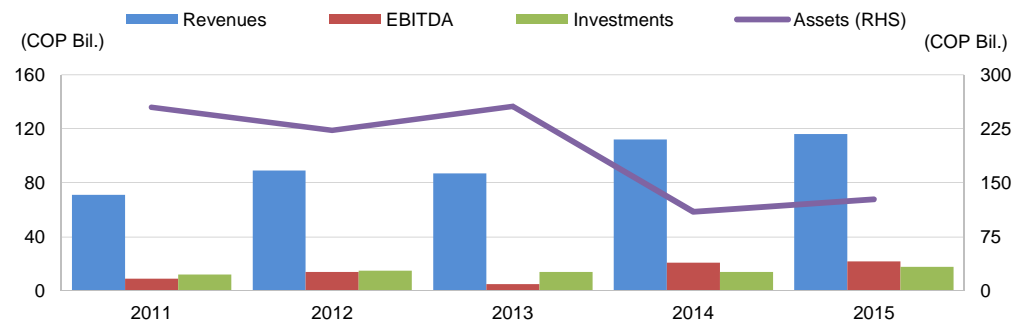


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Source: Interconexión Eléctrica S.A. E.S.P.

Real-Time Systems Management

Real-time systems management consists of planning, designing, optimizing, commissioning, operating and managing transactional systems or technological platforms. This involves added value for information exchange and goods-and-services-related markets. The company operates this business unit through XM, Compañía de Expertos en Mercados S.A. E.S.P. This company is in charge of the administration of the wholesale energy market in Colombia.

Real-Time Systems Management



Note: 2011–2013 reported under COLGAAP; 2014–2015 reported under IFRS.
Source: Interconexión Eléctrica S.A. E.S.P.

Key Forecast Assumptions

- Revenues incorporate the development of projects already granted to the company.
- Changes in the regulatory remuneration of power transmission business in Colombia do not have a material impact over ISA's credit metrics.
- Capex for the near future reflects the construction stage in the new projects awarded by ISA and its subsidiaries.
- Leverage levels between 4.0x–4.5x in the next two years.

Forecast Summary — Interconexión Eléctrica S.A. E.S.P.

(COP Mil.)	Historical		Fitch Forecast		
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Summary Income Statement					
Gross Revenue	3,921,335	5,270,649	6,912,360	6,729,396	6,884,353
Revenue Growth (%)	8.9	25.0	31.1	(2.6)	2.3
Operating EBITDA	2,232,885	2,796,699	3,359,369	3,916,548	4,629,232
Operating EBITDA Margin (%)	56.9	53.1	48.6	58.2	67.2
Operating EBITDAR	2,232,885	2,796,699	3,359,369	3,916,548	4,629,232
Operating EBITDAR Margin (%)	56.9	53.1	48.6	58.2	67.2
Operating EBIT	1,878,596	2,281,129	2,260,807	2,581,945	3,335,908
Operating EBIT Margin (%)	47.9	43.3	32.7	38.4	48.5
Gross Interest Expense	(629,315)	(952,822)	(1,383,000)	(1,676,964)	(1,749,466)
Pretax Income	1,308,801	1,480,332	877,807	904,981	1,586,442
Summary Balance Sheet					
Readily Available Cash	1,899,467	1,029,250	1,426,566	1,625,061	1,901,709
Total Debt with Equity Credit	9,425,510	10,922,279	14,223,176	16,267,069	15,541,408
Total Adjusted Debt with Equity Credit	10,249,200	10,922,279	14,223,176	16,267,069	15,541,408
Net Debt	7,526,043	9,893,029	12,796,610	14,642,008	13,639,699
Summary Cash Flow Statement					
Operating EBITDA	2,232,885	2,796,699	3,359,369	3,916,548	4,629,232
Cash Interest	—	—	(1,383,000)	(1,676,964)	(1,749,466)
Implied Interest Cost (%)	0.0	0.0	11.0	11.0	11.0
Cash Tax	—	—	(261,377)	(269,468)	(472,380)
Associate Dividends less Distributions to NCI	—	—	0	0	0
Other Items Before FFO	(297,585)	(120,095)	(0)	(0)	0
Funds Flow from Operations	1,935,300	2,676,604	1,714,992	1,970,116	2,407,385
FFO Margin (%)	49.4	50.8	24.8	29.3	35.0
Change in Working Capital	(339,752)	107,254	(132,562)	(37,578)	(115,563)
Cash Flow from Operations (Fitch Defined)	1,595,548	2,783,858	1,582,431	1,932,539	2,291,822
Total Nonoperating/Non-Recurring Cash Flow	—	—	—	—	—
Capex	(293,707)	(1,740,453)	—	—	—
Capital Intensity (Capex/Revenue) (%)	7.5	33.0	—	—	—
Common Dividends	(237,043)	(296,858)	—	—	—
Net Acquisitions and Divestitures	2,454	—	—	—	—
Capex, Dividends, Acquisitions and Other Items Before FCF	(528,296)	(2,037,311)	(4,486,012)	(3,777,937)	(1,289,513)
FCF After Acquisitions and Divestitures	1,067,252	746,547	(2,903,581)	(1,845,398)	1,002,309
FCF Margin (After Net Acquisitions) (%)	27.2	14.2	(42.0)	(27.4)	14.6
Other Investing and Financing Cash Flow Items	(661,384)	(666,004)	0	0	0
Net Debt Proceeds	(326,589)	(364,923)	3,300,897	2,043,893	(725,661)
Net Equity Proceeds	—	—	0	0	0
Total Change in Cash	79,279	(284,380)	397,316	198,495	276,647
Coverage Ratios (x)					
FFO Interest Coverage	3.6	3.5	2.2	2.2	2.4
FFO Fixed-Charge Coverage	3.6	3.5	2.2	2.2	2.4
Operating EBITDAR/Gross Interest Expense + Rents	3.5	2.9	2.4	2.3	2.6
Operating EBITDA/Gross Interest Expense	3.5	2.9	2.4	2.3	2.6
Leverage Ratios (x)					
Total Adjusted Debt/Operating EBITDAR	4.6	3.9	4.2	4.2	3.4
Total Adjusted Net Debt/Operating EBITDAR	3.7	3.5	3.8	3.7	2.9
Total Debt with Equity Credit/Operating EBITDA	4.2	3.9	4.2	4.2	3.4
FFO-Adjusted Leverage	4.6	3.3	4.6	4.5	3.7
FFO-Adjusted Net Leverage	3.7	3.0	4.1	4.0	3.3

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Note: 2014 reported under COLGAAP; 2015 reported under IFRS. NCI – Noncontrolling interest.
Source: Interconexión Eléctrica S.A. E.S.P., Fitch.

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