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CREDIT OPINION
19 July 2021

Update

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RATINGS

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

Domicile	Colombia
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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

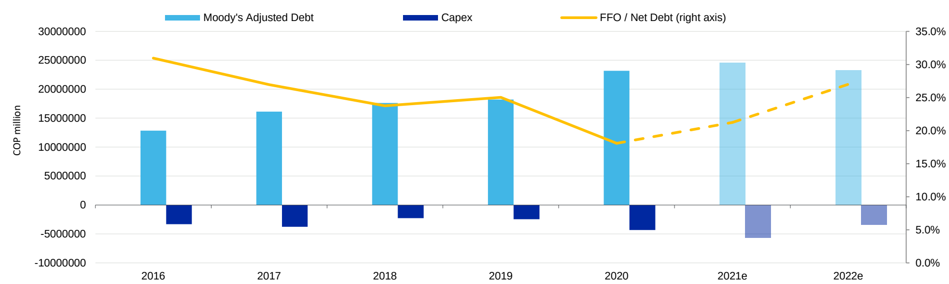
Annual update to credit analysis

Summary

Interconexion Electrica S.A. E.S.P.'s (ISA, Baa2 stable) credit profile reflects its position as one of the largest transmission companies in Latin America and its diversified operations through its subsidiaries located in Colombia (Baa2 negative), Brazil (Ba2 stable), Chile (A1 negative) and Peru (A3 negative). It reflects the importance of the Colombian operations, responsible for around 25% of its overall EBITDA generation, and the fact that the underlying credit quality of most of the foreign subsidiaries is relatively weaker than that of the operations from Colombia, either because of leverage or sovereign-related risks. The credit view further reflects its ownership structure and links with the Government of Colombia (Baa2 stable) as its majority shareholder.

The company continues to execute an important investment cycle, viewed as more aggressive than historical levels. We expect consolidated debt to peak at around COP22-23 trillion in the next 12-18 months from an average balance of COP16 trillion in 2015-20. On the other hand, the cash flow generation is likely to increase as a consequence of new operations, with funds from operations (FFO)-to-net debt expected to remain around 20%-25% in the period.

Exhibit 1
Key credit metrics to remain within historical thresholds



Source: Moody's Financial Metrics™, Moody's Investors Service

Credit strengths

- Diversified geographic profile with majority of cash flows derived from the very stable transmission business
- Relative lowly leveraged capital structure
- Strong market share in strategic sectors essential to the economies where it operates

Credit challenges

- Substantial capital spending program, exposing the company to delays and cost overrun risks, typical to projects under construction
- Potential uncertainty on the remuneration for Colombian and Brazilian transmission lines
- Appetite for growth and M&A activity that could pressure leverage

Rating outlook

The stable outlook reflects the expectation that the company will prudently manage its capital investment program such that interest coverage and FFO/net debt remain within 4.5x to 5.5x and 20% to 30%, respectively.

Factors that could lead to an upgrade

Upward pressure on ISA's rating could derive from continued diversification or higher representation of operations in higher rated countries carrying commensurate leverage profiles. A slower pace of capital investment that allows deleveraging such that interest coverage and FFO/net debt exceed 6.0x and 30%, respectively, may also lead to positive rating action.

Factors that could lead to a downgrade

ISA's issuer rating could be downgraded upon downgrades of the sovereign ratings of the countries in which ISA holds substantial operations, in particular Brazil, Peru, and Colombia. A perception of lower support from the shareholder, business expansion or sustainable deterioration in the liquidity profile could all exert downward pressure on ISA's ratings. Negative rating pressure could also result from a more aggressive capital spending plan, or if the company faces any significant delays or cost overruns that significantly postpone or dent the recovery of its key credit metrics while maintaining dividend distributions. Quantitatively, ISA's rating could be downgraded should its:

- FFO/net debt decrease below 15%
- interest coverage ratio fall below 3.0x
- retained cash flow/net debt fall below 4%

Key indicators

Exhibit 2

Interconexion Electrica S.A. E.S.P. (consolidated)

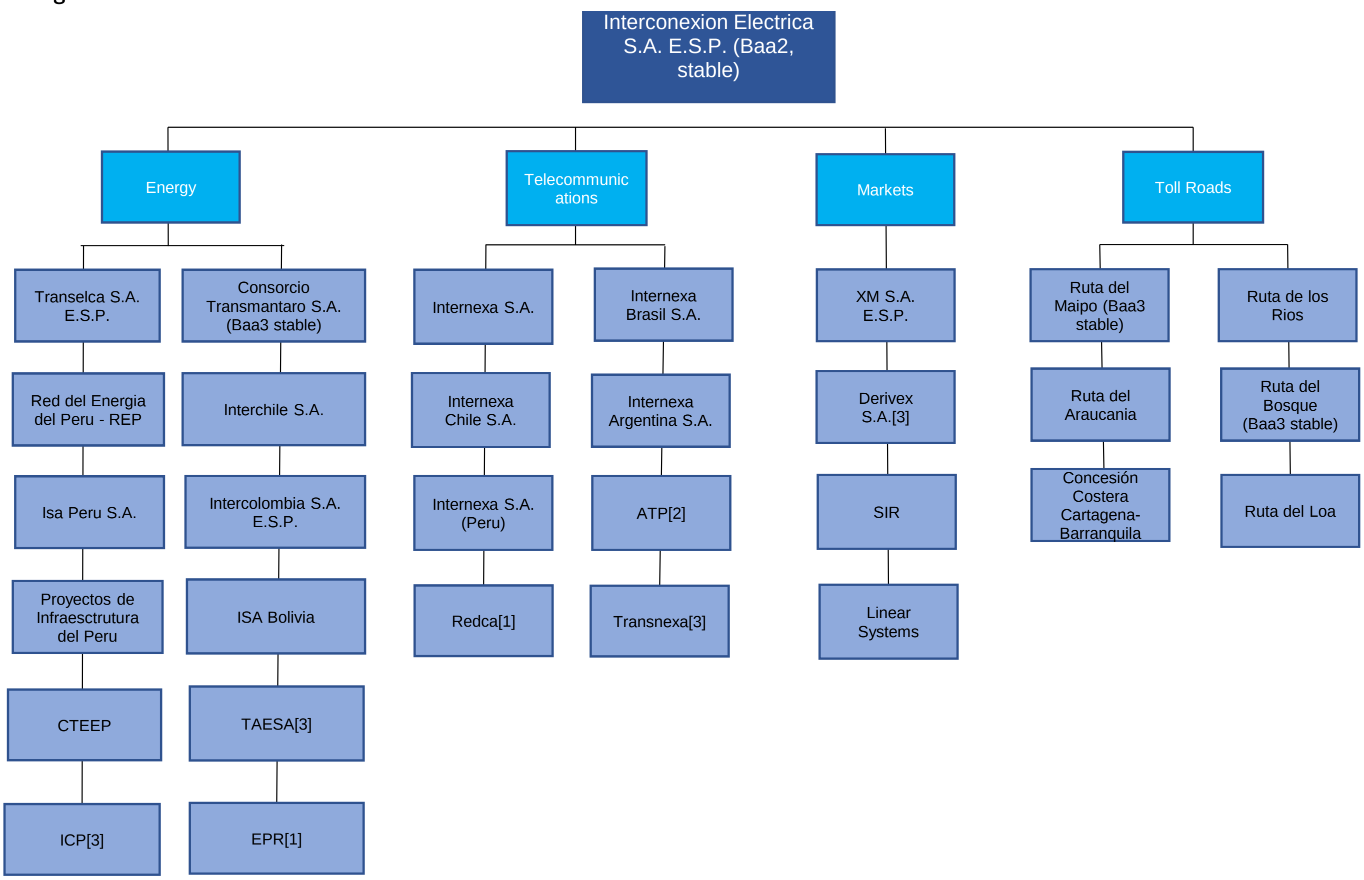
COP millions	2016	2017	2018	2019	2020
FFO Interest Coverage	5.0x	5.6x	5.3x	5.1x	4.1x
Net Debt / Fixed Assets	39%	45%	48%	46%	51%
FFO / Net Debt	31.0%	27.0%	23.7%	25.0%	18.1%
RCF / Net Debt	27.3%	21.1%	12.2%	17.6%	11.6%

Source: Moody's Financial Metrics™, Moody's Investors Service

Profile

Headquartered in Medellin, Interconexion Electrica S.A. E.S.P. (ISA) is an operating holding company with businesses in the electricity transmission, toll roads, telecommunications, and systems management sectors. The company is headquartered in Colombia, and holds direct and indirect ownership stakes in a portfolio of subsidiaries located in Colombia, Brazil, Chile and Peru.

Exhibit 3
ISA's organizational structure



[1]Investments in Financial Instruments: EPR y Redca
[2]Investments in Associates or with significant influence: ATP
[3]Investments with Joint Control: ICP, Taesa, Transnexa and Derivex
Intervial Chile incorporated and capitalized ISA Inversiones Costera Chile, due to the Sales Purchase Agreement of the shares of the Concesión Costera Cartagena – Barranquilla (pending approval)
Source: ISA

The Colombian government is ISA's majority shareholder (51.41% ownership stake), followed by Empresas Publicas de Medellin E.S.P. (8.82%, Baa3 negative). The balance of 39.77% is publicly held, including institutional investors (25.69%). Similar to other publicly controlled entities, ISA is subject to fiscal control under the General Nacional Accounting Authority and requires approval from the Colombian Ministry of Finance (Ministerio de Hacienda y Credito Publico) to incur new debt or provide guarantees.

Detailed credit considerations

Potential change in ownership structure to impact our support assumptions

ISA's rating reflects the application of our Joint-Default-Analysis (JDA) framework for government related issuers (GRI). Our GRI methodology considers the following four input factors: (1) a moderate-level probability of extraordinary support from the sovereign should ISA face financial distress, (2) our estimate of a very high level of dependence between the company and the sovereign, (3) the sovereign rating of Colombia of Baa2 negative, and (4) ISA's intrinsic credit quality as measured by its baseline credit assessment (bca) of baa2.

On 27 January 2021, Ecopetrol S.A. (Ecopetrol, Baa3 stable) announced it made a formal bid to acquire the Government of Colombia's (Baa2 negative) 51.4% stake in Interconexion Electrica S.A. E.S.P. (ISA, Baa2 stable). Should the transaction close, the lower credit quality of the new controlling shareholder and the lower indirect ownership stake by the Government could imply in a lower assumption for extraordinary support under our JDA. Nonetheless, the credit impact on ISA's rating would depend of the long-term business strategy and new corporate governance structure of the new controlling shareholder.

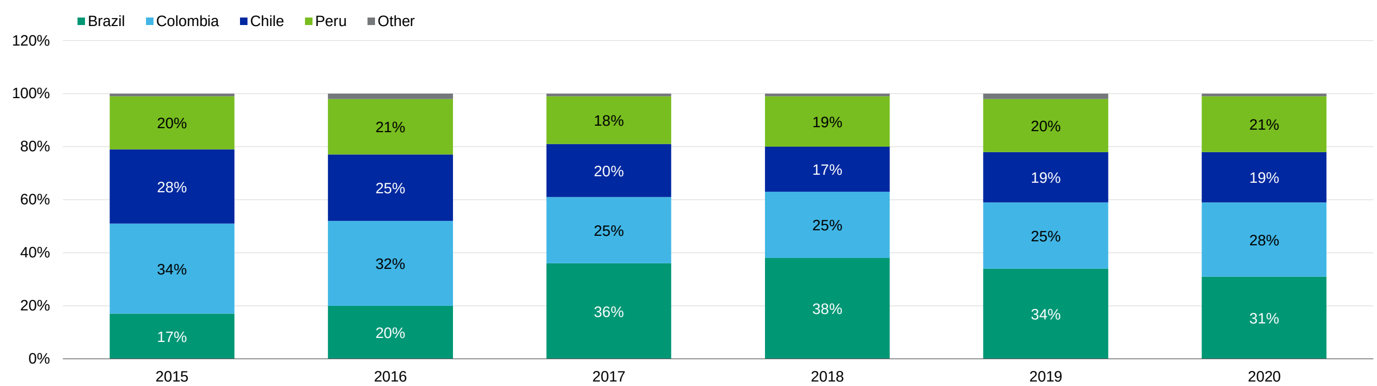
Geographic diversification is credit positive; Colombian operations carry higher credit quality while Brazil weighs on the consolidated view

ISA's credit profile benefits from the geographic diversification of operating in four different countries with different regulatory regimes. Over the course of the last five years, as a result of its large investment cycle, the operations in Brazil have increased in overall representation, with the EBITDA contribution of Colombian operations declining from 34% in 2015 to 25% in 2020. We expect the share of Colombian operations to remain relatively stable going forward. We see the company´s credit quality somewhat linked to the sovereign-related risks of the countries where it operates.

The ramping up of transmission operations in Brazil and Chile has also decreased the overall EBITDA contribution from the toll road business from 28% in 2015 to about 20% in 2020. The toll road business, has historically been concentrated in Chile, with recent expansion in Colombia's fourth generation toll road concessions program (4G).

Exhibit 4

Brazil represented an average of 34% of EBITDA in the last three years



[1] EBITDA is adjusted for non-recurring items such as the RSBE in Brazil

Source: ISA

The diversification is generally positive, but the overall view is that the Colombian operations carry the highest credit quality. The credit quality of the Brazilian operations, through Companhia de Transmissão de Energia Elétrica Paulista S.A. (ISA CTEEP) is viewed as somewhat linked to the sovereign rating of Brazil. The credit profile of Peruvian transmission company Consorcio Transmantaro S.A. (Baa3 stable) is constrained by leverage, as are the Chilean toll roads Ruta del Maipo (Baa3 stable) and Ruta del Bosque (Baa3 stable).

International diversification further supports long-term growth

ISA's 2030 corporate strategy strives to expand the group's footprint outside Colombia, in countries and regions with constructive regulatory frameworks. It also focuses on improving profitability and achieving efficiencies in its core businesses.

The strategy also includes procurement of synergies, given the group's significant investment programs in Colombia, Brazil, Peru and Chile, as well as pursuing investment opportunities via partnerships (particularly if ISA is the controlling party). In December 2018, the company announced an investment agreement with Construcciones El Cóndor S.A. to enter the business of toll road concessions in the Colombian and Peruvian markets, of which ISA will control at least 51%.

Large scale and leading domestic footprint underpin a solid business profile in Colombia

ISA is the leading transmission company in Colombia, responsible for approximately 70% of the overall transmission capacity in the country. The company's business profile is enhanced by the very high reliability of its infrastructure, presenting availability ratios of 99,8%, which is highly positive for the availability-based revenue profile of its contracts. The company's assets are held in perpetuity, and tariffs are subject to periodic reviews.

The portfolio of Colombian transmission lines is managed through a contractual management agreement with the company's subsidiary Intercolombia. With the objective of separating ISA's Colombian transmission operations from other businesses, the actual management of the transmission assets is undertaken by its own subsidiary and the assets remain the property of ISA as an operating holding company. The contractual operating and maintenance agreement, which has the stamp of the system grid's operator, XM S.A. E.S.P (another ISA subsidiary), establishes a cost plus mechanism, where Intercolombia holds an operating margin over incurred costs, with the remaining cash flow allocated to ISA. Independent of the fact that Intercolombia holds no financial debt, the contractual arrangement mitigates any structural subordination risks.

Update to regulatory review processes

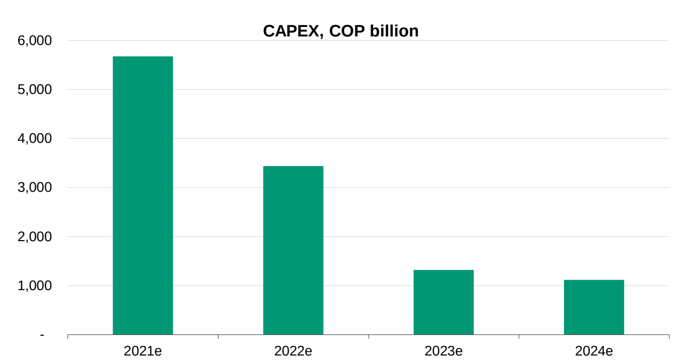
We continue to view the regulatory framework and environment in Colombia as overall credit positive. However, there has been a substantial delay in the tariff review process by the regulator (Comisión de Regulación de Energía y Gas - CREG), in particular because of the potential for methodological changes. Also in Brazil, in April 2021, the regulator ANEEL approved the reprofiling of RBSE ("Basic Network Existing System") payments, which are related to the indemnification of the transmission companies with contracts renewed in 2013. ANEEL's decision aimed to reduce tariff pressures arising from the effects of the coronavirus pandemic, and the indemnification payments will now occur in eight years (instead of five) and will be lower in the 2021/2022 and 2022/2023 cycles. However, the net present value of the operation will be maintained given the higher WACC.

Expansion program to strain free cash flow generation in the short term

The company is undergoing a substantial capital investment program, sized at around COP9 trillion in the next 12-18 month. Approximately 75%-80% of the investments are directed to energy transmission while approximately 25-20% are in the toll road business. Most of the investment is domiciled in Brazil (33%), followed by Chile (19%), Colombia (27%) and Peru (21%). As a result of the capital spending program, we expect the company's free cash flow generation to remain negative.

Exhibit 5

Capital spending to strain free cash flow in the medium term...

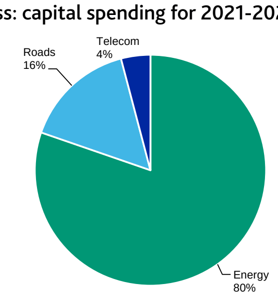


Source: ISA, Moody's Investors Service

Exhibit 6

but focused on business with predictable cash flows

Breakdown by business: capital spending for 2021-2025



Source: ISA

Key credit metrics to remain relatively stable

The credit view recognizes the increase in debt as the company executes its investment program, but also the expectation that revenue and cash flow will increase as the projects under construction begin operations. In addition, the continued devaluation of the Latin American currencies compared to the US dollar also weigh on the debt as 38% of the consolidated debt is USD denominated.

As of March 2021, ISA reported total consolidated debt of COP24 trillion, compared to 22.7 trillion in December 2020. The actual increase in debt represented only COP300 billion of the variation, with the rest being linked to currency devaluation. Nevertheless, we also consider in our analysis that about 20% of the Colombian revenues and 15% of the Chilean revenues are denominated in USD, which should partially offset the currency devaluation impact on debt and interest.

We expect FFO/net debt to remain between 20% and 25% over the next 12-18 months as the newer operations continue to ramp up at the same time interest coverage averages 5.0x. The significant expansion plan will continue to strain leverage in the period and new investments and acquisitions could weaken the company's credit quality.

ESG considerations

Moody's takes into account the impact of environmental, social and governance factors when assessing issuers' economic and financial strength.

Environmental considerations

Regulated electric networks, which do not own energy generation assets, such as ISA, carry low environmental risks. New project investments bring completion execution risks, and environmental licenses can eventually lead to delays in project completion or cost overruns. Nonetheless, ISA has been able to manage these appropriately.

Social considerations

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do consider however that ISA's cash flows carry low exposure to coronavirus-related risks in its transmission business given the essentiality of the service and the availability-based revenue stream. While the toll road business carries volume risk, the company benefits from ample liquidity that will lead them to manage throught the negative cycle.

Governance considerations

ISA has shown a good track record of maintaining a conservative financial policy, presenting leverage metrics that are very strong for companies operating in the transmission business. The company's senior management has extensive sector experience. ISA is listed on the Colombia Stock Exchange and has almost 40% of its shares publicly held, with 78% of its board represented by independent members.

Liquidity analysis

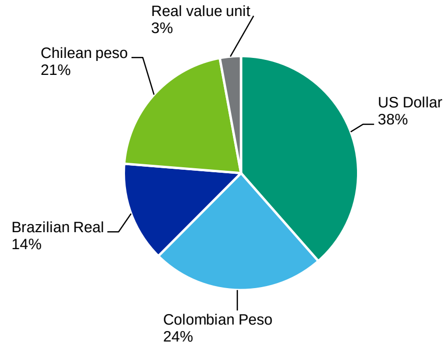
ISA carries an adequate liquidity profile. As of March 2020, ISA reported a consolidated cash position of COP3.4 trillion against COP1.5 trillion of debt due in the next 12 months. At the holding level, the company reported cash on hand of COP618 billion against COP4.7 trillion of short-term maturities. On a consolidated basis, ISA's maturity profile is manageable, with an average tenor of around 8 years.

Structural considerations

Management's foreign-exchange rate risk policy strives to minimize the exposure to currency volatility by trying to incur debt in proportion to the consolidated cash flow stream. The mismatch exists as the underlying subsidiaries carry different leverage profiles, largely as a function of as to where they are within their capital investment cycle.

As of December 2020, around 38% of ISA's consolidated debt was denominated in US dollars - largely backed by the Peruvian transmission concessions, which currently are more leveraged than the consolidated profile. On the other hand, Brazilian operations are less leveraged. Consequently, debt incurred in BRL represents 16% of the total, while EBITDA derived from Brazil represents a 31% share of total. On a consolidated basis, ISA does not have material financial hedges.

Exhibit 7
Share of consolidated debt by currency as of December, 2020



Source: ISA

Rating methodology and scorecard factors

We evaluate ISA's BCA mainly relative to our Regulated Electric and Gas Networks rating methodology that was published in March 2017. As depicted in the grid below, the current and projected scorecard indicated outcomes are Baa1, one notch above the currently assigned BCA and issuer rating. The one notch differential reflects sovereign-related risks, an element treated outside the scorecard.

Exhibit 8

Rating factors table

Interconexion electrica S.A. E.S.P. (consolidated)

Regulated Electric and Gas Networks Industry Grid [1][2]	Current FY 12/31/2020		Moody's 12-18 Month Forward View as of 6/17/2021 [3]	
Factor 1: Regulatory Environment and Asset Ownership (40%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Regime	Baa	Baa	Baa	Baa
b) Asset Ownership Control	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Ability and Timelines)	Baa	Baa	Baa	Baa
d) Revenue Risk	Aa	Aa	Aa	Aa
Factor 2: Scale and Complexity of Capital Program (10%)				
a) Scale and Complexity of Capital Program	Ba	Ba	Ba	Ba
Factor 3: Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4: Leverage and Coverage (40%)				
a) FFO Interest Coverage (3 Year Avg)	4.8x	A	5.0x	A
b) Net Debt / Fixed Assets (3 Year Avg) (or RAB)	48.1%	A	49.0%	A
c) FFO / Net Debt	22.0%	A	24.0%	A
d) RCF / Net Debt (3 Year Avg)	13.6%	Baa	16%	A
Indicated Outcome				
Scorecard indicated outcome Grid Factors 1-4		Baa1		Baa1
Rating Lift		**-**		
a) Scorecard Indicated Outcome		Baa1		Baa2
b) Actual Rating Assigned				Baa2
Government Related Issuer	**Factor**			
a) Baseline Credit Assessment	baa2			
b) Government Local Currency Rating	Baa2			
c) Default Dependence	Very High			
d) Support	Moderate			
e) Final Rating Outcome	Baa2			

[1] All ratios are based on 'Adjusted' Financial Data and Incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
[2] As of 12/31/2020
[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions or divestitures
Source: Moody's Financial Metrics™

Recent Developments

Ruta del Maule, as a concessionary company under ISA Intervial group, ended its concession contract on march 31, 2021 given that the total guaranteed revenue and the time lapse settled to cover the agreed additional projects with the MOP were fulfilled. The amount outstanding had been paid off on the second half of 2018, the contract reversion with the MOP was processed completely and now a closing legal, corporate and tributary procedure is ongoing, which is normal to any limited company in closing process.

Appendix

Exhibit 10
Moody's-adjusted debt [1]
COP million

	2016	2017	2018	2019	2020
As reported Debt	12,471,425	15,689,028	17,190,586	17,983,842	22,696,039
Pension Adjustment	218,682	225,041	222,473	227,847	488,508
Operating Lease Adjustment	172,516	203,760	226,036	-	-
Moody's Adjusted Debt	**12,862,623**	**16,117,829**	**17,639,095**	**18,211,689**	**23,184,547**

[1] All figures are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
INTERCONEXION ELECTRICA S.A. E.S.P.	
Outlook	Stable
Issuer Rating	Baa2
PARENT: COLOMBIA, GOVERNMENT OF	
Outlook	Negative
Issuer Rating	Baa2
Senior Unsecured	Baa2
ST Issuer Rating	P-2
ATP TOWER HOLDINGS, LLC	
Outlook	Stable
Corporate Family Rating	Ba3
Bkd Senior Secured	Ba3
RUTA DEL MAIPO SOCIEDAD CONCESIONARIA S.A.	
Outlook	Stable
Bkd Senior Secured	Baa3
RUTA DEL BOSQUE S.A.	
Outlook	Stable
Bkd Senior Secured -Dom Curr	Baa3

Source: Moody's Investors Service

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