STANDARD & POOR'S RATINGS SERVICES

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Summary:

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

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Credit Rating:	BBB-/Stable/--

Rationale

Standard & Poor's Ratings Services' ratings on Interconexion Electrica S.A. E.S.P. (ISA) reflect the company's stand-alone credit profile (SACP), which we assess at 'bbb-'. In our view, the SACP reflects the company's "satisfactory" business risk profile due to a stable and generally predictable business environment and regulatory framework in the countries in which it operates. In addition, ISA holds a strong market position by controlling 81% of Colombia's and 78% of Peru's transmission segments and its diversification into telecom and toll-road sectors, which support its business risk profile and profitability. The SACP also reflects ISA's "significant" financial risk profile due to its aggressive financial policy. The company partially funds its acquisitions with debt and there is the potential for new toll road projects in Colombia which could require the company to secure additional debt.

The ratings also incorporate our assessment that there is a "low" likelihood that the Colombian government would provide timely support to ISA, if needed as the company has a substantial portion of cash flow and debt now outside of Colombia. As its primary shareholder, the Colombian government holds a 51.4% stake in ISA. However, based on our government-related entity criteria, we also assess ISA to have a limited link to the government, given the independence of its management and corporate practices and its "limited importance" in meeting Colombia's key economic, social, and political objectives. A private entity could easily undertake ISA's operations.

ISA plans to reach $3.5 billion in revenues by 2016 and to generate 80% of these outside of Colombia. Its noncore business segment will provide the remainder of the revenues. In order to achieve this goal, we expect the company to expand its electric transmission and toll road operations throughout Latin America, primarily in Colombia, Brazil, Peru, Chile, and Panama. During 2011, in line with its strategy, ISA completed its acquisition of a Chilean toll road operator, CINTRA Chile Ltd. (now called Intervial). The company funded the acquisition through an intercompany loan from Intervial. We believe this acquisition will increase ISA's geographic and business diversification, as the company expands into a non-energy-related business line.

In its aim to cut electricity prices by about 20% for end users, the Brazilian government recently approved provisional measure 579 (MP 579) and related regulations, which offered electric utilities with concessions coming due between 2015 and 2017 the option for an early renewal for up to 30 years in exchange for a compensation payment and a significant reduction in prices and tariffs. The objective was to finance about 65% of the price reduction to end users through lower concession prices and tariffs, while the remainder 35% would come from the elimination or reduction of certain sector charges and taxes.

The companies that accepted the proposal will receive a new price or tariff from January 2013 onwards that aims to cover, among other things, operations and maintenance expenses, charges and taxes, and a compensation payment from the government equivalent to the unamortized value of the concession assets. The government will pay part of the unamortized value of the concession assets upfront and finance the remainder for up to 30 years, although final terms are still under negotiation. These payments should partly offset the expected lower electricity prices and tariffs.

ISA is the controlling shareholder of CTEEP-Companhia de Transmissao de Energia Eletrica Paulista (CTEEP) which recently announced it had accepted the government's proposal. Our ratings on ISA incorporate the expectation that its total debt to EBITDA will remain below 4.0x. In light of the recent events in Brazil, we are currently reviewing our base-case scenario for ISA. Based on preliminary figures, we expect the upfront compensation payments for the unamortized value of the concession assets of about R$2.9 billion to be sufficient to significantly reduce CTEEP's debt (R$2.4 billion). This payment should offset the drop in EBITDA due to lower tariffs. CTEEP's operations account for about 44% of ISA's revenues and 50% of its EBITDA. Although the company's investment plan is under review, we believe that CTEEP's acceptance of the MP 579 confirms ISA's commitment to maintaining its presence in Brazil.

ISA is a regional holding group with headquarters in Colombia engaged in the construction, operation, and management of linear infrastructure systems, including electric power transmission, telecommunications transport, and toll roads.

Liquidity

We believe ISA's liquidity to be "adequate." The company does not have financial covenants on its debt. As of Sept. 30, 2012, the company had about $984 million in cash and short-terms investments, which compares favorably to the $784 million in debt maturities it has for the next 12 months. For the 12 months ended Sept. 30, 2012, free operating cash flow, was about $740 million.

Outlook

The outlook reflects our expectation that ISA's key financial metrics will remain stable. We believe that compensation under MP 579 will allow ISA to reduce debt at its Brazilian operations in order to offset the expected reduction in EBITDA. We might raise the ratings if macroeconomic indicators and the institutional framework within the countries where ISA operates continue to strengthen. In addition, ISA's ability to expand and diversify, while posting a consolidated FFO to total debt above 30%, and total debt to EBITDA below 3.0x, could lead to an upgrade. However, if ISA were to commit to highly debt-financed acquisitions that deteriorate its financial risk profile, resulting in a consolidated debt-to-EBITDA ratio above 4.0x and an FFO-to-interest coverage ratio below 3.0x, we could lower the rating.

Related Criteria And Research

Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010

Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008