

FITCH: BRAZIL'S ELECTRIC CONCESSION RENEWAL PROPOSAL CREDIT NEUTRAL FOR ISA

Fitch Ratings-Chicago-18 September 2012: Fitch Ratings sees Interconexion Electrica S.A. E.S.P.'s (ISA, Foreign Currency Issuer Default Rating 'BBB-' with a Positive Outlook) ability to service debt unaffected by Brazil's proposal to renew electric concession in that country. The neutral impact for ISA results from the lack of dividends received from ISA's subsidiaries in Brazil and the expectation that these subsidiaries would not upstream cash to its holding company in the near future.

ISA's credit rating is supported by its strong stand alone credit profile, characterized by low leverage. During the last 12 months ended June 30, 2012, ISA stand-alone financials reported an EBITDA plus dividends of USD367 million and total debt of USD855 million, which translates into a leverage ratio, as measured by total debt-to-EBITDA of 2.3 times (x), considered strong for the company's rating category.

The Brazilian government's proposal for renewing electricity concession expiring between 2015 and 2017 includes an upfront payment to the concessionaires in exchange for a significant reduction in revenues going forward, both of which are to be determined. The upfront payment is intended to compensate concession holders for their assets net of depreciation. The value, which would be calculated by the sector's regulator, is uncertain and likely would not fully compensate companies for all of their investments. The government's proposal also includes a significant decrease in revenues to levels that would only be intended to cover operating and maintenance cost, which prevents them from generating profits and creates disincentives for future investments.

ISA's current ratings are not expected to be affected by the potential weakening of its consolidated credit metrics should the Brazilian government proposal move forward. The company's subsidiaries in Brazil, ISA Capital do Brasil S.A. and Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP), have conservative leverage ratios. These companies account for almost 50% of the company's consolidated EBITDA, although ISA only holds a 37.8% economic interest in CTEEP. A potential decrease in CTEEP cash generation would directly impact ISA's consolidated profit. During the last 12 months ended June 30, 2012, ISA's consolidated EBITDA was USD1.6 billion while total adjusted debt amounted to USD5.7 billion. As of June 30, 2012, ISA's consolidated debt-to-EBITDA ratio was 3.5x.

The degree by which the credit quality of ISA's subsidiaries in Brazil could be impacted depends upon the fairness of the upfront payment, the ensuing cash flow generation and any weakening of the respective capital structures. Nevertheless, Fitch considers those companies' ratings could remain the same if the company opportunely accommodates its capital structure and redefines its investment plan towards one more suitable with its new cash generation.

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