MOODY'S INVESTORS SERVICE

Credit Opinion: Interconexion Electrica S.A. E.S.P.

Global Credit Research - 03 Dec 2013

Medellin, Colombia

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa3
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
Ruta del Maule Sociedad Concesionaria S.A.	
Outlook	Stable
Bkd Senior Secured	Baa2

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Key Indicators

[1]**Interconexion Electrica S.A. E.S.P.**

	2008	**2009**	**2010**	**2011**	**2012**	**3Q2013**
(FFO + Interest) / Interest	**2.9x**	**3.1x**	**4.5x**	**3.1x**	**3.7x**	**4.4x**
FFO / Debt	**17.6%**	**20.9%**	**21.7%**	**11.8%**	**19.5%**	**24.3%**
Debt / Fixed Assets	**82.9%**	**69.7%**	**76.5%**	**86.2%**	**76.6%**	**64.9%**
RCF / Capex	**2.7x**	**1.9x**	**2.5x**	**1.2x**	**1.1x**	**1.0x**

[1] All ratios calculated in accordance with the Global Regulated Electric and Gas Networks Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Ownership structure

-- New Corporate strategy is credit positive while reorganization of the Colombian transmission operations is expected to be credit neutral

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-- Relatively transparent regulatory framework and limited volumetric exposure underpin cash flows

-- Group's foreign subsidiaries are considered but have limited impact on the rating

- Prudent financing of growth initiatives, especially within the toll-road concession sector

- Credit metrics expected to weaken but remain commensurate with the rating category

Corporate Profile

Headquartered in Medellin, Colombia (LC and FC Baa3 sovereign ratings; stable), Interconexion Electrica S.A., E.S.P. (ISA; Issuer Rating: Baa3; stable) is the largest electricity transmission company in the country with a market share of around 71.4% in terms of income generated in the Interconnected National Transmission System (STN). Starting in 2014, these operations will be carried out via the 100% subsidiary INTERCOLOMBIA E.S.P. S.A. that was established during the second half of this year. The transmission operations are subject to the purview of the Comision de Regulacion de Energia y Gas (CREG).

ISA also holds direct and indirect ownership-stakes in a portfolio of power transmission companies including 99.99% in Colombian Transelca (about 10% market share), 99.99% in ISA Bolivia (34% market share) and ISA Capital do Brasil (63.32% excluding preferred stock) which controls with 89.5% of the common voting stock (37.8% of the capital stocks) the Brazilian Companhia de Transmissao de Energia Electrica Paulista (CTEEP; around 16% market share). In Peru, it holds directly and indirectly ownership stakes in ISA Peru (99.99%), Red de Energia del Peru (REP; 59.99%) and Consorcio TransMantaro (CTM, Baa3, stable; 60%) whose collective market shares currently aggregate around 65%.

ISA also holds a 50% interest in Interconexión Eléctrica Colombia - Panamá S.A that is pursuing the electric interconnection Colombia-Panama which is currently on hold, as well as an 11.11% interest in Empresa Propietaria de la Red (EPR) that owns the 1,800km 230KV transmission line, Sistema de Interconexion Electrica de los Paises de America Central (SIEPAC; current capacity: 300MW) that extends over six countries from Guatemala to Panama. This is expected to start full operations next year albeit it has been already completed with the first pre-operational dispatch at the end May.

The power transmission business currently accounts for over 66.1% of ISA's consolidated EBITDA (without adjustments for minority interests). The group will extend its transmission activities to Chile via a new subsidiary after wining in 2012 and 2013 two bid auctions over four new greenfield projects.

ISA also fully owns the Colombian coordinator of power operations in the STN, Compañia de Expertos en Mercados XM (99.7%). Moreover, the group provides telecommunication data transport services via optic fiber in Colombia, Peru, Venezuela, Chile, Brazil, Argentina and Ecuador through its subsidiaries Internexa and Transnexa. The group further diversified its operations into the concession toll-road business with the acquisition of Intervial Chile (2010: 40% increased to 100% in 2011).

The Colombian government is ISA's majority shareholder (51.41% ownership-stake). Other major shareholders include Empresa Publicas de Medellin E.S.P. (Baa3; 10.17%), Ecopetrol (Baa2; 5.32%) and Empresa de Energia de Bogota (Baa3; 1.67%). 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.

As of September 30, 2013, ISA reported assets, indebtedness and Last Twelve Month (LTM) cash flows of around US$5.5 billion, US$747 million, and US$211 million (excluding interest received and paid), respectively. This equates to around 12.4%, 15.4% and 18% of the consolidated assets, indebtedness, and cash flows, respectively.

Rating Rationale

Because the Colombian government is ISA's majority shareholder, ISA falls under the scope of Moody's rating methodology for Government-Related Issuers (GRIs). As explained later this methodology incorporates four components, namely (i) sovereign rating of Colombia (Baa3, positive), (ii) Moody's assessment of a medium probability of extraordinary support from the sovereign, (iii) high level of dependence, as well as (iv) ISA's Base Credit Assessment (BCA) of baa3, based on a scale of aaa to c in which aaa indicates the highest credit quality.

ISA's BCA is a representation of its intrinsic creditworthiness before taking into account possible extraordinary support from the sovereign. The BCA factors the leading position of its transmission operations in Colombia along with the visibility of these cash flows driven by an overall credit supportive regulatory environment, limited volumetric exposure and the low business risk profile of these operations. While it acknowledges the importance of the group's foreign subsidiaries the uplift is limited as the rating assumes sufficient financial and operational separateness between ISA and these subsidiaries. The BCA assumes that the implementation of ISA's reorganization of its Colombian transmission activities will not have credit implications, and considers that the Corporate Strategy announced this year that focuses on enhancing the group's profitability will also contribute to a disciplined expansion as the group pursues new growth opportunities in Colombia, particularly in the toll-road sector, and other regional countries with transparent regulatory frameworks. The rating assumes these investments will be funded in a prudent fashion, such that the credit metrics will remain aligned with the current rating category. The rating also considers the group's limited foreign currency exchange rate risk. Further key factors tempering the rating include ISA's material dependence on the capital markets to meet unexpected cash flow shortfalls albeit its current debt maturity profile is considered manageable.

DETAILED RATING CONSIDERATIONS

OWNERSHIP STRUCTURE

The Colombian government does not guarantee ISA's debt obligations, and there is no evidence that this could change in the future; however, we believe that there is a "medium" likelihood of government support in the case of distress for several reasons including the current 51.41% ownership stake and the strategic importance of the company's operations for the country's economy. Our estimate of "high" default dependence reflects the significant degree to which Colombia is exposed to the same risks as those that would affect the credit quality of ISA's domestic operations, and our expectation that there is an elevated likelihood that the government and ISA would default simultaneously due to common risk factors.

NEW CORPORATE STRATEGY IS CREDIT POSITIVE

Earlier this year ISA announced the implementation of a new Corporate Strategy that focuses on improving the profitability and efficiency of its core businesses. This is credit positive as instead of growth revenues (previously to US$3.5 billion by 2016) it targets to triple its consolidated profits by 2020. To that end, ISA intends to capture synergies for the procurement of materials given the significant investment programs currently being pursued by its subsidiaries. ISA also strives to remain a market leader in the electric transmission and telecommunications (data transporter) sectors in Latin America amid capturing growth opportunities with superior profitability. The latter are defined in terms of exceeding a minimum cost of capital threshold which varies by country. The new strategy also intends to manage the group's portfolio of businesses and countries in a more dynamic manner to better take advantage of buying and selling opportunities.

REORGANIZATION OF COLOMBIAN ELECTRIC TRANSMISSION OPERATIONS: CREDIT NEUTRAL

To support the implementation of this Corporate Strategy ISA is also in the process of reorganizing its electric transmission operations. To that end it established a 100% owned subsidiary, INTERCOLOMBIA S.A.. E.S.P. that is expected to start operations in January 2014 with the transfer of around 560 employees including a management team fully-dedicated to these transmission operations. This subsidiary will undertake and deliver the operation and maintenance services of ISA's transmission assets but will also provide said services, including engineering, and O&M to third parties.

We understand that ISA will retain all the outstanding indebtedness (at the end of September around US747million) and incur any new indebtedness required to fund new transmission projects that the group wins under public bids organized by the Colombian Unidad de Planeacion Minero Energetica (UPME). However, we also understand that ISA has arranged with the system's operator, XM, for INTERCOLOMBIA to receive the cash flows associated with the recovery of the costs associated with these O&M services such that it can break-even, while the tariff portion related to the remuneration of the investments (around 65% of the total) will be transferred directly to ISA who would remain responsible for the operations.

ISA will seek on December 10, 2013, bondholders' approval (requires initially 80% of votes) to adjust the corporate purpose defined in its by-laws. This is a pre-requirement for attaining subsequent shareholder's approval in March 2014. ISA is pursuing its shareholder's approval to enhance transparency as the latter is not a needed to implement this re-organization.

We believe that, if is implemented as currently planned, the re-organization is credit neutral as the cash flows split will help mitigate the structural subordination that would otherwise result if INTERCOLOMBIA would receive 100% of the operational cash flows which would force ISA to depend upon dividend distributions.

This is an important consideration from our perspective since ISA's current rating captures its modest dependence on the dividends received from its subsidiaries (2012: equivalent to less than US$35 million; 2011:about US$25 million; 2010:US$44million) to service its debt that currently accounts for around 15% of the consolidated indebtedness. Historically, TRANSELCA has been the largest dividend distributor (2012: around US$27 million; 2011: US$20.5 million) followed by ISA Bolivia (around US$3.2 million; 2011; US$2.2 million) and ISA Peru (2012 and 2011 about US$1.2 million each).

LIMITED VOLUMETRIC EXPOSURE AND REGULATORY FRAMEWORK ENHANCE TRANSMISSION CASH FLOW VISIBILITY

The visibility of ISA's operational cash flows is a credit positive from a credit perspective, as they enhance the company's ability to service its outstanding indebtedness. Its transmission assets are long lived, with relatively low operating risk along with high historical availability factors (around 99.9%) and low energy losses (0.01%). Despite efforts to eliminate barriers to entry, the top five transmission companies in Colombia (total of nine) account for over a 90% market share with ISA and Transelca accounting for around 80% over the foreseeable future. We note that Transelca granted several intercompany loans to its parent company with the total balance currently approximating US$129 million. These will mature between October 2024 and 2027 after the early refinancing in October of US$16 million due in December 2013.

Similar to other countries in Latam transmission projects in Colombia are increasingly facing challenges to attain rights of way, easements and environmental permits. We understand the latter has caused delays now expected for mid next year in the completion by ISA of the transmission network required to evacuate the power output from ISAGEN's new Sogamoso hydro plant. We also understand that ISA's planned transmission investments in Colombia will drop significantly in 2014 and 2015 (less than US$25 million p.a.) after peaking during 2013 (9mos. 2013: US$125 million; 2012: US$85 million). The rating assumes ISA will continue to participate in new transmission initiatives in Colombia that are awarded under a tender process coordinated by the Ministry of Mines and Energy. Colombia's required generation asset base and transmission grid expansion is updated annually by the special administrative body of the Ministry of Mines and Energy, Unidad de Planeacion Minero Energetica (UPME).

We believe the Colombian regulatory framework compares well to those in other Latin American countries in terms of stability and transparency. This is underpinned by its predictable track-record since the enactment in 1994 of Law 142 (Household Public Utilities Services Law; LSPD), associated Decree 1524, as well as other pieces of legislation, including the Electricity Law (Law 143) and additional regulation that has further developed the framework over the last fifteen years. We also believe that CREG's decisions are overall credit constructive; however, our opinion of the regulatory framework is somewhat tempered by the composition and election of the CREG's board members which does not fully insulate it from possible political interference. That said, there has not been any evidence in this regard to date.

The bulk of ISA's transmission assets became operational before 2000. These are subject to tariffs that are currently premised on a 11.5% rate of return to be applied on the assets' replacement value and to CREG's reviews every five years with the next one not anticipated before 2015. The balance of ISA's transmission assets started operations after 2000. For the first 25 operational years the remuneration of these assets is based on the winning bid that included estimated annual revenues in USD, along with Administration, Operation and Maintenance expenses, as well as the opportunity costs of the capital invested. After 25 years, these assets will be also subject to the CREG's transmission periodic tariff reviews. We consider a credit positive the very limited volumetric exposure of the remuneration for both types of assets. We further observe that transmission charges are also linked to inflation but lack adjustments for changes in the exchange rate (USD/local currency) as is the case in other jurisdictions, a credit negative.

According to ISA the number of towers attacked through October by the terrorist group, FARC, was 55 less than the number registered in 2012 (88) despite the intensified attacks that took place this past October. We consider it a credit weakness that the damages caused by terrorist attacks are not considered Force Majeure. That said, the company is compensated via tariffs for the cost associated with repairing the attacked transmission assets that became operational before 2000, while these costs for the post-2000 assets were considered in the submitted bid. It should be noted that the company has been able to cope with these attacks without any major consequences on the electric services in the country.

RATING INCORPORATES LIMITED IMPACT FROM THE GROUP'S FOREIGN OPERATIONS

Moody's acknowledges the importance of the group's foreign operations, particularly those of the Brazilian (debt: around US$846 million; around 82% at CTEEP), Peruvian (debt: US$764 million) and Chilean (debt: US$2.3 billion) subsidiaries. Starting in the 2Q-2013, ISA started reporting the concessions in Chile and Brazil as financial assets to reflect the IFRS accounting requirements currently applicable in both countries. Therefore, at the end of September 2013 their contribution to the group's EBITDA (without adjustments for minority interests) represented 16.4% (Brazil), 13.2% (Peru) and 31.6% (Chile), respectively.

We consider the Peruvian subsidiaries in our analytical assessment of ISA given the company's equity contributions and guarantees (proportionate to their ownership interest) provided to lenders to fund, for example, the construction works of CTM if they are unable to complete them. Following the commissioning of three of the four projects CTM that has been developing, only one guarantee, for the Trust Trujillo-Chiclayo concession for over US$100 million remains in place, while a new guarantee will be provided following the financial closing of the Machupicchu-Abancay-Cotaruse Trust indebtedness. CTM's Baa3 rating assumes that its dividend policy will be prudent and the size of future dividends will taken into consideration with its current multi-year capex program and any new organic growth opportunities.

ISA also provides financial guarantees for EPR (approximately US$45 million until 2027) and ISA Bolivia (around US$16 million until 2019). It is our understanding that ISA does not plan to provide any significant additional guarantees on behalf of its existing telecommunication and transmission subsidiaries.

We note that ISA received from ISA Capital do Brasil an intercompany loan (US$23.8 million) due in December 2014; however, ISA does not rely on dividend distributions from its Brazilian operations nor does it intend to make any equity contributions to aid in the funding the substantial capital outlay program of CTEEP's subsidiaries. These assumptions along with the fact that ISA is not exposed to cross-default clauses to any of the indebtedness incurred by CTEEP support our opinion about the sufficient degree of operational and financial separateness that exists between ISA's and CTEEP's activities. CTEEP accepted the reviewed proposal by the Brazilian Ministry of Mines and Energy (MME) to accelerate the early renewal of the company's main concessions originally set to expire in July 2015. This followed the government's review of some of the original terms and conditions outlined after provisional measure #579 in September 2012 that in January 2013 became law #12,783. As a result, CTEEP's reimbursement amount for the non-depreciated transmission assets that were commissioned after May 2000 was set at BRL$2.9 billion (around US$1.5 billion). CTEEP received earlier this year a 50% upfront payment while the balance is payable in monthly installments (indexed to the so called harmonized Consumer Price Index (CPI) +5.59%) between January 2013 and July 2015. CTEEP's use of these amounts to repay its outstanding debt maturing between 2013 and 2015 is credit positive. As of the end of September 2013 CTEEP had paid down US$400 million (Real 895million) in debt while an additional US$650 million (Real1.45billion) indebtedness remains outstanding. On a less positive note, the compensation value for the assets that started operating before May 2000 is still pending. Nevertheless, it is expected that the Brazilian regulator will publish shortly the applicable methodology to be used to calculate the amount of compensation. ISA expects to submit the study to be prepared by a third party about the value of those assets during the first half of 2014 and that a final decision regarding the amounts, payment method and dates will be made before year-end. CTEEP's operational cash flows have been materially reduced so as to recover only the O&M expenses incurred plus a fee which has reduced its ability to make any material dividend distributions. ISA's rating anticipates that ISA Capital do Brasil will use any dividends received to make payments on the redeemable preferred equity issued in 2010 to refinance US$522 million in bonds due in 2017 (around US$32 million bonds not tendered are still outstanding). ISA's rating currently assumes CTEEP and ISA Capital do Brasil will be able to fully repay their outstanding financial obligations; however, we also believe that some reputational risk remains that could incentivize ISA to provide financial support to its Brazilian subsidiaries if their available cash is not enough to repay its maturing debt.

ISA increased in 2011 its ownership stake in Intervial Chile S.A. to 100% after exercising a purchase option over the remaining 40% stake (US$211 million; in 2010 it paid US$296 million). The 2011 purchase was funded with internally generated funds (US$71 million) and a US$140 million intercompany loan granted by ISA to ISA Inversiones Chile in December 2011. ISA's rating recognizes the diversification benefits and the investment-grade ratings of the indebtedness incurred to fund portions of three out of the five existing toll road concessions currently embedded in Intervial Chile S.A., namely Ruta del Maipo (Baa3; Stable), Ruta Maule (Baa3; Stable) and Ruta del Bosque (Baa3; Stable). The remaining two toll roads are not publicly rated. These concessions' ability to upstream dividend is subject to distribution tests under each of the toll roads' indebtedness indentures or credit agreements (at the end September 2013, reported debt included around $2.3 billion associated with these concessions; about 47% of ISA's consolidated indebtedness). The rating incorporates the expectation that any dividend from these concessions will be largely used to refinance the intercompany loan (current balance around US$110 million) and/or fund the group's growth initiatives in Chile.

AGGRESSIVE EXPANSION STRATEGY BUT PRUDENT IMPLEMENATION ANTICIPATED

ISA's corporate strategy mentioned earlier includes pursuing growth opportunities mainly in Colombia, Brazil, Peru and Chile.

In 2012 and 2013, ISA won two auctions for four projects to build in aggregate over 740 kilometers of transmission lines in the Chilean Sistema Interconectado Central (investments approximate US$960 million (first auction) and US$101 million (second auction), respectively) to be completed before year-end 2017. ISA is currently developing the funding strategy for the project with a combination of equity contributions (around 40%) and indebtedness to be incurred at the new Chilean subsidiary for the balance. We understand that the bulk of the funding will be required in the latter years of these estimated five year projects. The projects' annual revenues during the first twenty years are expected to approximate US$63 million; thereafter, the projects will be subject to regulated transmission tariffs. We also understand that progress is being made in attaining the rights of way, a credit positive. Given the transparency and stability of the Chilean regulatory framework and ISA's expertise in the transmission sector we believe this investment is credit positive. We further understand that ISA has incorporated some leeway in the completion schedule given the inherent risks associated with these types of projects.

In addition to maintaining its leadership position in the regional electric transmission and telecommunications (data transportation) sectors it strives to also grow its road transportation business. To that end it is participating in the process initiated earlier this year by the Colombian government to expand the country's road infrastructure. ISA has been pre-qualified for one of the projects. It expects to submit its final offer early next year with the final decision by the Colombian authority (ANI) anticipated also before the end of June. The capital outlay associated with this project is estimated at US$700 million. While this would be an important investment, we acknowledge that ISA has entered a 50% partnership with the Spanish toll-road operator Cintra Infraestructuras, S.A. from which ISA acquired the Chilean toll roads.

ISA's rating incorporates as a key assumption that it will largely pursue investments in regulated-type operations in stable and predictable regulatory environments and that potential new investments will be prudently funded such that the company continues to report robust credit metrics for the rating category.

In this regard, we gain comfort from ISA's execution of partnerships to reduce the financial burden of its expansion plans. In addition to the Cintra partnership, ISA's subsidiary, INTERNEXA, also executed an agreement with the Brazilian subsidiaries of the International Finance Corporation (IFC; Aaa, stable) and the investment fund manager (IGF) to participate in the financing and structuring of telecommunications and IT projects in Brazil. To that end, the subsidiary INTERNEXA Brazil will receive capital contributions that will initially aggregate up to US$50 million. Also Empresas de Energia de Bogota S.A.. E.S.P. (EEB) holds a 40% minority equity interest in ISA's Peruvian transmission subsidiaries, REP and CTM.

CREDIT METRICS EXPECTED TO REMAIN COMMENSURATE WITH THE RATING CATEGORY

ISA continues to report credit metrics that are well positioned within the rating category. Specifically, its standalone CFO pre-W/C to debt, interest coverage and RCF to debt over the three-year period 2011-LTM 3Q-2013 averaged 17%, 3x, and 7%, respectively. ISA has also repaid around US$80 million local bonds that matured earlier this year which will also aid its credit profile at year-end 2013.

The rating assumes that ISA will not exceed its target payout ratio of 70% of its distributable net income (2013: around US$110 million paid through the 2Q; 2012: US$130 million). The rating further incorporates the expectation that management will continue disciplined policies to fund its expansion initiatives based on a combination of internally generated cash flows, additional indebtedness and equity issuance when needed to fund any new growth strategy investment. This coupled with its reasonable target dividend payout ratio underpins our expectation that key credit metrics will remain robust within its existing rating category; Specifically, FFO to debt will remain in the high teens, interest coverage will exceed 2.7x, and its RCF to debt will be at least 10%.

We also gain additional comfort from the incurrence test included in the company's financing documentation that requires that net debt to EBITDA remain below 4x which places limits on ISA's ability to incur incremental debt in the absence of any additional supporting EBITDA generation.

Liquidity Profile

ISA's rating is tempered by its reliance on the capital markets to fund its capital requirements and to meet unexpected cash shortfalls in the absence of any committed credit facilities. Historically, this weakness has been somewhat offset by ISA's material balances of cash and marketable securities. AT the end of September ISA reported US$159 million in cash and short term investments, a credit positive particularly after the declining trend in these amounts registered over the previous three years. The rating assumes that ISA will be able over the next two years to bridge any funding requirements with internally generated cash flows with only modest amounts of additional indebtedness, including its equity contribution into the Chilean transmission projects and/or the Colombian road development should it win the public auction. The rating also considers ISA's remaining debt maturity profile to remain manageable with around US$61 million maturing next year, including the intercompany loan with US$16 million.

Rating Outlook

The rating outlook for ISA's baa3 BCA rating is stable, based on our expectation for continued, predictable cash flow generation from its core Colombian transmission businesses, along with the prudent management of the group's capital expansion programs for the Peruvian and Brazilian transmission companies. The stable outlook also factors in our expectation that future growth will be pursued only in regulated businesses that will be appropriately funded such that ISA continues to report metrics that are commensurate with the Baa rating category.

What Could Change the Rating - Up

Since ISA's Baa3 rating is based on Moody's methodology for GRIs, upward rating pressure is unlikely despite the positive rating outlook for the Colombian government, since the BCA is somewhat capped by the aggressive growth initiatives currently underway, particularly, in the road concession sector. However, consideration of a rating upgrade could occur if ISA reports FFO to debt and interest coverage of around 30% and 5x, both on a sustainable basis.

What Could Change the Rating - Down

The BCA rating could be downgraded as a result of a deterioration in the supportiveness of the Colombian regulatory framework. A rating action could be also triggered if leverage ends up being higher than currently expected, or if our key assumption regarding ISA's limited involvement in the expansion of its Brazilian subsidiaries in terms of capital contributions or guarantees, is not proven to be correct. A downgrade could also occur with a material deterioration in ISA's liquidity profile and/or credit metrics, such that its interest coverage and FFO to debt ratios fall below 2.7x and 15%, respectively, on a sustainable basis. Moreover, a downgrade in Colombia's foreign currency ceiling could negatively affect ISA's ratings.- Colombia's leading transmission company.

Other Considerations

Management's foreign exchange rate risk policy strives to optimize the natural hedge associated with the group's operations such that the debt currency breakdown reflects the expected revenue streams. In this regard, as of September 30, 2013, over 90% of ISA's outstanding standalone debt is denominated in Colombian pesos with indebtedness in USDs accounting for the reminder. In addition, around 75% of ISA's indebtedness denominated in Colombian Pesos is indexed to the Consumer Price Index to hedge against inflation variations.

We evaluate ISA's BCA mainly relative to Moody's Regulated Electric and Gas Networks methodology that was published in August 2009. As depicted in the grid below, the issuer's indicated BCA rating based on both historical and projected credit metrics is Baa3, the same as its current assigned BCA.

Rating Factors

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

Regulated Electric and Gas Networks [1][2]	**12/31/2012**			**Moody's 12-18 month Forward View* As of November 2013**	
Factor 1: Regulatory Environment and Asset Ownership Model (40%)	**Measure**	**Score**		**Measure**	**Score**
a) Stability and Predictability of Regulatory Regime		Baa			Baa
b) Asset Ownership Model		Aa			Aa
c) Cost and Investment Recovery		Baa			Baa

d) Revenue Risk		Aa		Aa
Factor 2: Efficiency and Execution Risk (10%)				
a) Cost Efficiency		Baa		Baa
b) Scale and Complexity of Capital Programme		Baa		Baa
Factor 3: Stability of Business Model & Financial Structure (10%)				
a) Ability & Willingness to Pursue Opportunistic Corp. Activity		B		B
b) Ability & Willingness to Increase Leverage		Baa		Baa
c) Targeted Proportion of Op. Profit outside Core Reg. Activities		B		B
Factor 4: Key Credit Metrics* (40%)				
a) (FFO+ Int exp) / Int exp (3 Year Avg)	3.7x	A	3.5x-5.0x	A
b) Debt / Fixed Assets (3 Year Avg)	79.8%	Baa	60 - 75%	Baa
c) FFO / Debt (3 Year Avg)	17.6%	A	12 - 20%	A
d) RCF / Capex (3 Year Avg)	1.6x	ba	1.0x-1.5	Baa
Rating:				
Indicated BCA Rating from Grid		baa3		baa3
Actual BCA Assigned		baa3		baa3

* 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

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2012; Source: Moody's Financial Metrics

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