

Interconexión Eléctrica S.A. E.S.P.

Full Rating Report

Ratings

Foreign Currency	
Long-Term IDR	BBB
Local Currency	
Long-Term Local-Currency IDR	BBB
National	
COP2.7 Trillion Bond Program	AAA(col)
COP200 Million CP	F1+(col)
IDR – Issuer Default Rating.	
Ratings Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Interconexión Eléctrica S.A. E.S.P. — Individual			
(USD Mil., LTM)	3/31/13	12/31/12	
Revenue	555	560	
EBITDA	351	372	
EBITDA Margin (%)	63	67	
Funds from Operations	131	229	
FCF	82	157	
Cash and Marketable Securities	170	133	
Total Adjusted Debt	783	805	
Total Adj. Debt/EBITDA	2.2	2.2	
FFO Adjusted Leverage	3.8	2.6	
EBITDA/			
Gross Interest Expense	4.7	4.4	

Related Research

Fitch Upgrades Interconexión Eléctrica S.A.'s IDR to 'BBB', Affirms National Scales at 'AAA(col)' (May 2013)

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Key Rating Drivers

Stable, Predictable Cash Flow: Interconexión Eléctrica S.A. E.S.P.'s (ISA) ratings reflect the company's low business risk level supported by its regulated income and natural monopoly position in the countries in which it operates. A significant portion of the company's revenues and cash flow generation comes from regulated transmission businesses, which are very stable and predictable. As of March 2013, electric transmission accounted for approximately 75% and 80% of ISA's consolidated revenues and EBITDA, respectively.

Strong Balance Sheet Supports: ISA has historically reported a strong financial profile, characterized by strong cash generation, low leverage and solid interest coverage. ISA's consolidated credit metrics are somewhat affected by the increase in debt after the acquisition of Cintra Chile (now Intervial Chile). ISA's stand-alone financial profile is strong and consistent with an investment-grade rating. During 2012, the company reported total debt/EBITDA of 2.2x and interest coverage above 4.0x.

Robust Liquidity: ISA's liquidity is considered robust and is characterized by healthy cash on hand levels, manageable debt amortization, and adequate access to local and international capital markets. As of March 31, 2013, ISA had approximately USD1.5 billion of consolidated cash on hand (USD167 million at the parent company) and USD558 million of consolidated short-term debt. ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread between 2013 and 2041.

Neutral Effect of Brazilian Concession's Early Termination: ISA's subsidiary in Brazil, Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP, rated 'AA+(bra)' by Fitch) opted to accept the Brazilian government's offer to renew early the concessions expiring between 2015 and 2017. This had a neutral impact on ISA's credit quality. This partly reflects the low dividends ISA received from this subsidiary. Although during the next two years ISA's consolidated financial profile will be negatively affected by lower EBITDA generation in Brazil, CTEEP is expected to repay a significant portion of its debt with the proceeds it receives from the renewal process.

Rating Sensitivities

Positive Rating Triggers: Although a positive rating action is not expected in the near future, a sustainable consolidated and stand-alone leverage below 2.0x, coupled with a stable and predictable cash flow generation profile, could lead to a positive rating outlook or upgrade.

Negative Rating Drivers: A rating downgrade could be triggered by a sustained increase in leverage above 4.5x, either on a consolidated or stand-alone basis, coupled with a deterioration of its cash flow stability and predictability. Also, significantly negative regulatory changes that affect the company's financial performance could lead to a negative rating action.

Recent Events

In December 2012, CTEEP accepted the Brazilian government's offer, through its Ministry of Mines and Energy (MME), to renew early the concessions due to expire between 2015 and 2017 for an upfront payment and a significant reduction in tariffs. The Brazilian government offered CTEEP approximately BRL2.9 billion as an upfront payment plus an additional undefined amount for the early renewal of its main concession. The upfront payment is greater than CTEEP's stand-alone debt of approximately BRL2.4 billion as of year-end 2012, and should be enough for CTEEP to repay all its outstanding debt. Although ISA's financial results consolidate CTEEP, the company does not fully benefit from this subsidiary's cash flow generation given its ownership position.

Starting in 2013, CTEEP's tariffs for the concessions, which were renewed for a period of 30 years, will amount to approximately BRL515 million per year. CTEEP will also receive an estimated BRL3.0 billion in additional compensation over a period of 30 years as well as returns on investments in the existing transmission line. As a result of the changes in the cash flow generation profile of CTEEP, dividends to ISA are unlikely in the near future. The company will primarily use CTEEP's dividends to meet financial obligations at ISA's intermediate holding company, ISA Capital do Brasil S.A. (IDR BB+), which as of December 2012 amounted to approximately BRL1.3 billion and were composed of senior unsecured debt and preferred shares.

In October 2012, ISA won the rights to build and operate a 755 km transmission line in Chile. Total investment for this asset is expected to amount to approximately USD800 million with annual revenues forecast at around USD63 million. ISA has incorporated a subsidiary in Chile, named Interchile, to develop the construction of this transmission line, which is expected to be financed with equity and debt at Interchile and to commence operations in January 2018.

At the end of 2012, ISA exited the feasibility study it was performing for the toll road project, Autopistas de la Montaña, and received approximately USD20 million from the Colombian government in compensation for its contribution to the project. This event significantly reduced the uncertainty about the company's future capital structure as the project had an estimated cost in excess of USD8.0 billion.

Liquidity and Debt Structure

ISA's liquidity is considered strong and is characterized by healthy cash on hand levels, manageable debt amortization, and adequate access to local and international capital markets. As of March 31, 2013 ISA had approximately COP2,865,266 million of consolidated cash on hand (of which COP310,691 million was at the holding company) and COP1,032,620 million of consolidated short-term debt (COP116,946 million at ISA alone).

ISA has broad access to financial markets in Latin America given its track record in markets such as Colombia, Peru, Brazil and Chile. ISA has a wide range of financial sources with available credit lines and the possibility of raising capital through share issuances (like the one in December 2009, when ISA collected USD188 million).

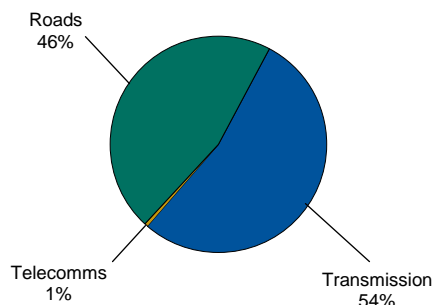
According to ISA's financial strategy, the company plans to finance its subsidiaries independently, and, if necessary, restrict dividend flows to the parent company. During 2012, ISA launched a strategy to lower its debt cost by prepaying expensive debt (in Colombia), resulting in a fall in debt costs to an average of 8.69% from 9.81%.

Related Criteria

Corporate Rating Methodology
(August 2012)

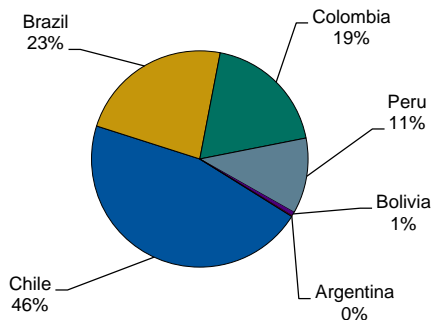
As of March 31, 2013, ISA's consolidated debt was USD10.3 billion (including preferred shares). By country and sector, total consolidated debt is as shown below.

Consolidated Debt by Sector



Note: Numbers may not add due to rounding.
Source: ISA.

Consolidated Debt by Country

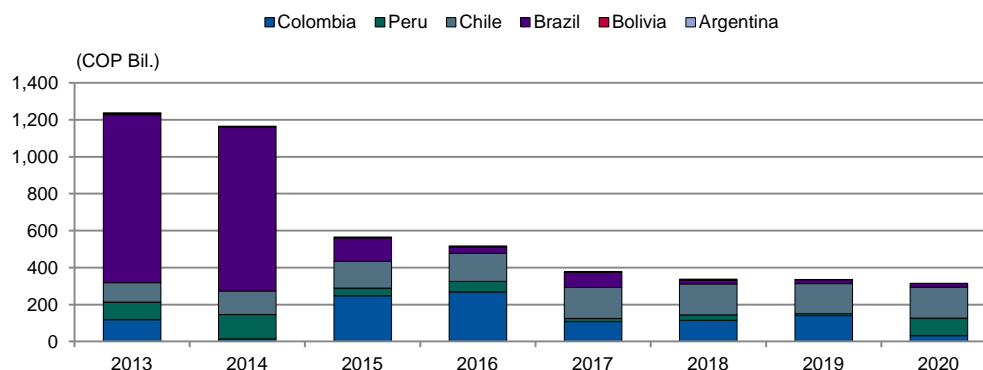


Note: Numbers may not add due to rounding.
Source: ISA.

In the first quarter of 2010, the ISA Group conducted a restructuring of the debt of its subsidiary ISA Capital do Brasil. This operation consisted of the execution of the call option for all of the bonds placed on the international market due in 2012 (USD 200 million) and the repurchase of USD322 million of bonds maturing in 2017, redeeming 95 % of these issues. To carry out this operation, ISA Capital do Brasil issued preferred stocks to a Brazilian bank for an amount equivalent to the cancellation of the bond issues in Brazilian reais (approximately USD522 million at that time), leaving this institution with 41% of preferred shares in ISA Capital. This transaction allowed ISA to cancel the hedging transactions for dollar bonds, reduce the cost of debt to 9% from 16% and allow ISA Capital to invest in businesses other than CTEEP.

ISA Capital agreed to pay shareholders preferential fixed quarterly dividends at a rate of CDI (certificado de depósito interbancário) +1% commission, which are payable from 2011 and could be accumulated for up to three consecutive or five nonconsecutive periods. Otherwise it will accelerate the obligation to repurchase shares. The preferred shares will be repurchased between April 2013 and April 2016. Given the characteristics of these shares (a quarterly dividend, repurchase option), Fitch counts them as part of the consolidated debt.

Debt Maturity Schedule



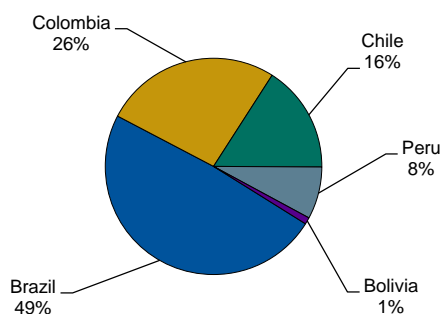
Source: ISA.

Cash Flow and Coverage Ratios

ISA's financial profile is considered adequate for the rating category. The company is characterized by stable cash flows (around 90% of sales), controlled debt levels and a dividend policy according to its investment plan. During 2012, ISA's revenues and EBITDA (stand-alone) totaled USD545 million and USD363 million, respectively. In addition, in 2012 the company received dividends of COP64,885 million, with Transelca, PDI and ISA Bolivia being the major contributors.

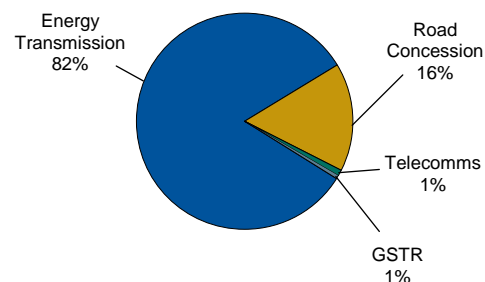
On a consolidated basis, despite the high leverage of the concession roads business, profit margins are relatively similar to those of the electric transmission business, resulting in consolidated margins of around 60%.

EBITDA by Country



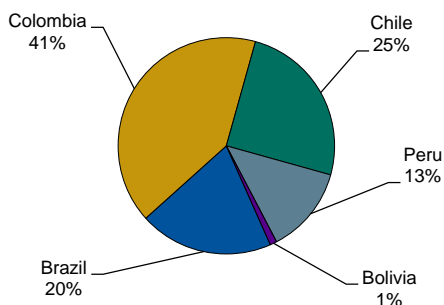
Note: Numbers may not add due to rounding.
Source: ISA.

EBITDA by Business Line



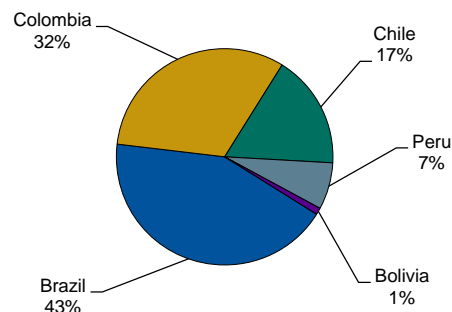
Note: Numbers may not add due to rounding.
Source: ISA.

Expected Revenue by Country — 2015



Note: Numbers may not add due to rounding.
Source: ISA.

Revenue by Country — 2012



Note: Numbers may not add due to rounding.
Source: ISA.

Company Overview and Strategy

ISA is the largest transmission company in Colombia with 11,662 km of transmission lines in the country and 38,989 km of transmission lines in all countries where it has operations. ISA also has interests in other transmission companies throughout Latin America, including 60% in Peru's two largest transmission companies and one of the largest transmission companies in Brazil (CTEEP). ISA also renders other services in Colombia such as fiber optic telecommunications, as well as operation, management and construction of infrastructure and road concessions.

ISA is a mixed capital company in which the government holds 56.73% of the total shares (51.41% directly and 5.32% indirectly through Ecopetrol). The second largest shareholder is Empresas Publicas de Medellin with 10.17%. The remaining 33.1% of shares are spread throughout the market.

Although the company is currently revising its global strategy and objectives, it's previous targets aimed at reaching USD3.5 billion in revenues by 2016, of which 80% will be generated outside Colombia and 20% will be revenues generated outside the core business. In order to achieve its goals, the company will continue to expand electric transmission and toll-road assets throughout Latin America, primarily in those countries where it is already present (i.e. Colombia, Brazil, Peru, Chile and Panama). Investments over the next four years are expected to be approximately USD2.0 billion.

ISA has made significant progress in reaching its main goal by ending 2012 with revenues of USD2.4 billion on a consolidated basis, of which 68% were generated by its operations outside Colombia and 22% came from noncore businesses.

Operations

Transmission

The electric transmission business is characterized by regulated or guaranteed income for defined periods; 90% of ISA's individual revenues (generated in Colombia) are regulated and tariffs are revised every five years. The regulator introduced new regulatory parameters, which took effect at year-end 2010. These tariff changes resulted in a modest revenue increase of approximately 0.5%. The remaining 10% of revenues are generated under bilateral contracts with annual inflation adjustments and no regulatory tariff reviews for a preset period of approximately 20 years (ending 2031–2032).

In Brazil, CTEEP has two electric transmission concessions. ISA recently renewed the 2015 concession under new terms (*see Recent Events, above*). Revenues from Peru and Bolivia are guaranteed for approximately 20 years under the concession agreements and are adjusted annually.

In recent years, ISA has been actively participating in electric transmission bidding processes. The company has been awarded numerous build, operate, manage and transfer (BOMT) projects in Brazil, Peru and Colombia for approximately 6,362 km of transmission lines.

ISA's growth prospects in Latin America are very promising since governments in these countries continue to offer opportunities for expansion in power transmission. The Brazilian and Peruvian governments have been very proactive in promoting investments in their respective countries with investment amounts of USD20 billion and USD700 million, respectively.

Transmission Lines

Country/Company	Km
Colombia	
ISA	10,115
TranSelca	1,560
Perú	
REP	6,231
Transmantaro	2,246
ISA Perú	393
Bolivia	
ISA Bolivia	588
Brazil	
CTEEP	19,189
IEMG	172
Pinheiros	6
Serra do Japi	11
EVRECY	154
Total	40,665

Source: ISA.

Concession Roads

ISA officially entered this business with the acquisition of Intervial Chile (formerly Cointra Chile) in September 2010. ISA paid approximately USD290 million to Cintra España for a 60% stake in Intervial Chile. The transaction was 60% funded from own resources and 40% with debt through a loan from BBVA Colombia for USD124 million. In December 2011, ISA acquired the remaining 40% of Intervial Chile for USD211 million. The investment was funded by intercompany loans (from ISA and Intervial Chile to ISA Chile).

Intervial Chile is the largest operator of toll road concessions in Chile. Intervial operates five out of the eight road concessions comprising Ruta 5, Chile's main highway. These concessions cover six states that account for 80% of Chile's population and 74% of the country's vehicle fleet.

Intervial Chile's subsidiaries (Ruta del Maipo, Ruta del Maule and Ruta del Bosque) have several bonds issued in the Chilean local market and one of them (Ruta del Maipo) has a 144a bond issued in the international market. Ruta del Maipo bonds are secured by Municipal Bond Insurance Association (MBIA) insurance policies.

Telecommunications

ISA participates in the telecom sector through its subsidiary Internexa. Internexa has operations in Colombia, Ecuador, Peru, Chile, Argentina, Brazil and Venezuela. ISA's intention is to consolidate its operations as the major network operator in South America. Also, ISA's goal is to connect Central and South America through a continuous fiber optic cable (taking advantage of its affiliate participating in Sistema de Interconexión Eléctrica de los Países de América Central—SIEPAC). ISA's connectivity infrastructure is based on a fiber optic network of 22,730 km that connects seven countries across more than 63 cities.

Telecommunication Lines

Country	Company	Km
Colombia	Internexa	6,680
Perú	Internexa	4,674
Chile	Internexa	1,785
Brasil	Internexa	4,111
Argentina	Internexa	2,577
Ecuador	Transnexa	926
Venezuela	Local Partnership	1,977
Total		22,730

Source: ISA.

Financial Summary — Interconexión Eléctrica S.A. E.S.P. — Consolidated

(USD Mil., Years Ended Dec. 31)	LTM 3/31/13	2012	2011	2010	2009
Profitability					
EBITDA	1,394	1,580	1,604	1,312	1,086
EBITDAR	1,394	1,580	1,604	1,312	1,091
EBITDA Margin (%)	62.9	66.2	67.8	70.9	70.8
EBITDAR Margin (%)	62.9	66.2	67.8	70.9	71.1
FFO Return on Adjusted Capital (%)	26.0	27.4	2.7	(13.3)	9.2
Free Cash Flow Margin (%)	62.1	38.6	(8.5)	(87.2)	25.6
Return on Average Equity (%)	2.4	2.7	3.1	3.3	3.6
Coverage (x)					
FFO Interest Coverage	5.8	6.0	0.6	(8.5)	3.4
EBITDA/Gross Interest Expense	2.7	3.0	3.1	7.5	6.0
EBITDAR/Interest Expense + Rents	2.7	3.0	3.1	7.5	5.9
EBITDA/Debt Service Coverage	1.3	1.2	1.2	2.3	1.8
EBITDAR/Debt Service Coverage	1.3	1.2	1.2	2.3	1.8
FFO Fixed-Charge Coverage	5.8	6.0	0.6	(8.5)	3.3
FCF Debt Service Coverage	1.7	1.1	0.2	(2.5)	0.9
(FCF + Cash and Marketable Securities)/Debt Service Coverage	3.2	1.9	0.8	(1.4)	1.7
Cash Flow from Operations/Capital Expenditures	(3.4)	8.8	(0.6)	(26.2)	6.9
Leverage (x)					
FFO Adjusted Leverage	1.9	1.9	17.6	(3.3)	3.7
Total Debt with Equity Credit/EBITDA	4.1	3.7	3.5	3.8	2.1
Total Net Debt with Equity Credit/EBITDA	2.9	3.1	3.0	3.3	1.6
Total Adjusted Debt/EBITDAR	4.1	3.7	3.5	3.8	2.1
Total Adjusted Net Debt/EBITDAR	2.9	3.1	3.0	3.3	1.6
Implied Cost of Funds (%)	10.0	10.3	11.4	5.4	8.4
Secured Debt/Total Debt	—	—	—	—	—
Short-Term Debt/Total Debt	0.1	0.1	0.2	0.1	0.2
Balance Sheet					
Total Assets	14,205	14,553	13,752	13,490	8,344
Cash and Marketable Securities	1,570	947	729	633	498
Short-Term Debt	566	762	799	408	436
Long-Term Debt	4,546	4,542	4,100	3,821	1,805
Total Debt	5,112	5,304	4,899	4,229	2,241
Total Equity	5,730	5,808	5,583	6,098	4,727
Total Adjusted Capital	11,411	11,698	11,123	11,047	7,004
Cash Flow					
Funds from Operations	2,496	2,622	(203)	(1,654)	426
Change in Working Capital	(1,431)	(1,428)	165	188	122
Cash Flow from Operations	1,065	1,194	(38)	(1,466)	548
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capital Expenditures	311	(136)	(62)	(56)	(80)
Common Dividends	—	(136)	(101)	(92)	(74)
Free Cash Flow (FCF)	1,376	921	(201)	(1,614)	393
Net Acquisitions and Divestitures	(4)	3	(57)	(126)	49
Other Investments, Net	(305)	(454)	—	—	—
Net Debt Proceeds	(334)	166	761	1,912	(222)
Net Equity Proceeds	—	—	—	—	178
Other (Investments and Financings)	(125)	(490)	(393)	(70)	(226)
Total Change in Cash	608	146	109	102	173
Income Statement					
Revenue	2,215	2,388	2,364	1,851	1,534
Revenue Growth (%)	(7.2)	1.0	27.7	20.7	(4.7)
EBIT	935	1,111	1,187	986	809
Gross Interest Expense	518	524	518	174	181
Rental Expense	—	—	—	—	5.0
Net Income	136	151	182	181	146

Source: Company report.

Financial Summary — Interconexión Eléctrica S.A. E.S.P. — Individual

(USD Mil., Years Ended Dec. 31)	LTM 3/31/13	2012	2011	2010	2009
Profitability					
EBITDA	351	372	370	351	297
EBITDAR	351	372	370	351	297
EBITDA Margin (%)	63.3	66.5	68.7	70.7	68.7
EBITDAR Margin (%)	63.3	66.5	68.7	70.7	68.7
FFO Return on Adjusted Capital (%)	4.9	7.5	4.6	4.4	8.0
Free Cash Flow Margin (%)	14.8	28.1	6.0	17.8	39.7
Return on Average Equity (%)	0.0	4.5	5.5	5.7	5.7
Coverage (x)					
FFO Interest Coverage	2.8	3.7	3.2	3.0	3.3
EBITDA/Gross Interest Expense	4.7	4.4	6.0	5.7	3.5
EBITDAR/Interest Expense + Rents	4.7	4.4	6.0	5.7	3.5
EBITDA/Debt Service Coverage	2.5	2.5	2.7	1.8	1.7
EBITDAR/Debt Service Coverage	2.5	2.5	2.7	1.8	1.7
FFO Fixed-Charge Coverage	2.8	3.7	3.2	3.0	3.3
FCF Debt Service Coverage	1.1	1.6	0.7	0.7	1.5
(FCF + Cash and Marketable Securities)/Debt Service Coverage	2.4	2.5	1.3	1.0	3.2
Cash Flow from Operations/Capital Expenditures	3.3	5.7	6.3	4.8	5.8
Leverage (x)					
FFO Adjusted Leverage	3.8	2.6	4.1	4.2	2.5
Total Debt with Equity Credit/EBITDA	2.2	2.2	2.2	2.2	2.4
Total Net Debt with Equity Credit/EBITDA	1.7	1.8	2.0	2.1	1.4
Total Adjusted Debt/EBITDAR	2.2	2.2	2.2	2.2	2.4
Total Adjusted Net Debt/EBITDAR	1.7	1.8	2.0	2.1	1.4
Implied Cost of Funds (%)	0.0	10.4	7.8	8.2	11.6
Secured Debt/Total Debt	—	—	—	—	—
Short-Term Debt/Total Debt	0.1	0.1	0.1	0.2	0.1
Balance Sheet					
Total Assets	5,015	5,033	4,841	4,708	4,171
Cash and Marketable Securities	170	133	81	46	286
Short-Term Debt	64	66	78	138	86
Long-Term Debt	719	739	735	641	619
Total Debt	783	805	813	779	704
Total Equity	3,326	3,456	3,300	3,356	2,996
Total Adjusted Capital	4,109	4,261	4,113	4,135	3,700
Cash Flow					
Funds from Operations	131	229	137	123	195
Change in Working Capital	146	128	21	104	103
Cash Flow from Operations	277	357	158	227	298
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capital Expenditures	(84)	(63)	(25)	(47)	(52)
Common Dividends	(110)	(136)	(101)	(92)	(74)
Free Cash Flow (FCF)	82	157	32	88	172
Net Acquisitions and Divestitures	—	—	—	1	3
Other Investments, Net	41	48	8	(325)	10
Net Debt Proceeds	(54)	(80)	52	28	(117)
Net Equity Proceeds	—	—	—	—	178
Other (Investments and Financings)	(81)	(81)	(55)	(55)	(88)
Total Change in Cash	(12)	44	38	(262)	159
Income Statement					
Revenue	555	560	539	496	433
Revenue Growth (%)	(0.9)	3.9	8.7	14.6	(6.8)
EBIT	271	271	259	249	219
Gross Interest Expense	74	84	62	61	85
Rental Expense	—	—	—	—	—
Net Income	136	151	182	181	146

Source: Company report.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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