Interconexión Eléctrica S.A. E.S.P- ISA

ISA

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB

Local Currency

Long-Term IDR	BBB

IDR – Issuer default rating.

National

COP2.7 Trill. Bond Program	AAA(col)
COP200 Mil. CP	F1+(col)

Rating Outlooks

Bond Program	Stable

Financial Data

Interconexion Electrica S.A. E.S.P. - ISA

USD Mil.	LTM 3/31/14	12/31/13
Revenue	1.919	1.926
EBITDA	1.005	1.042
EBITDA Margin (%)	52	54
Funds from Operations	823	627
FCF	456	1.149
Cash and Mkt. Securities	945	947
Total Adj. Debt	4.425	4.524
Total Adj. Debt/EBITDAR	4,4	4,3
FFO Adjusted Leverage	3,5	4,1
EBITDA/Gross Interest Expense	2,3	2,2

source: ISA

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Key Rating Drivers

Stable and Predictable Cash Flow: ISA's ratings reflect the company's low business risk level supported by its regulated income and natural monopoly position in the countries in which it has operations. During the last 12 months (LTM) ended March 31, 2013, electric transmission accounted for 68.% of ISA's consolidated revenues and nearly 63,8% of ISA's consolidated EBITDA. ISA on a standalone basis accounted for 30% of its consolidated EBITDA for the same LTM period.

Adequate Credit Metrics: ISA's consolidated credit metrics were somewhat affected last years by the increase in debt following the company's acquisition of Intervial in Chile. ISA’s consolidated credit metrics remain in line with the assigned rating and consistent with an investment grade rating. ISA reported a ratio debt-to-EBITDA, of 2,3x and an interest coverage ratio of 2.2x. In medium term, consolidated leverage should moderate to levels around 4.0x.

Strong Liquidity Position: 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, 2014, ISA had approximately USD957 million of consolidated cash on hand, of which USD252 million were at the parent company level, and USD356 million of consolidated short-term debt. ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread between 2014 and 2041.

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

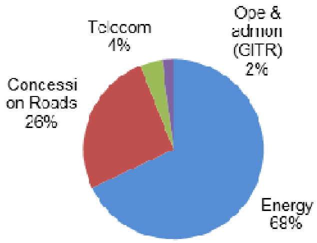
The Brazilian government, through its Ministry of Mines and Energy (MME) in 2013 paid USD1.3 Billon as a compensation for assets built from 2000 onwards, 50% was paid in January and the remaining 50% will be paid in monthly payments through 2015. ISA expects to receive a remuneration related with the assets building before 2000, and the improvement of assets executed between 2000 and 2012, this payment should be enough for CTEEP to repay all its outstanding debt.

Rating Sensitivities

The main factors that individually or collectively could lead to a negative rating action are:

--- A sustained increase in leverage above 4.5x on a consolidated or non-consolidated basis, as a result of a progressive deterioration in its cash generation or high debt requirements increased levels debt above Fitch case scenario. -- Significantly negative regulatory changes that impact the financial performance of the company could result in a negative rating action.

Sales Breakdown



Source: ISA

Related Criteria

'Corporates Rating Methodology, Including Short Term Ratings and Parent and Subsidiary Linkage

May 28, 2014

Financial Overview

ISA has a strong liquidity position, moderated levels of leverage and adequate coverage metrics. Fitch, incorporated in its rating moderate deleverage in the coming years and the renegotiation of the repurchase of preferred shares ISA Capital.

Liquidity and Debt Structure

Strong Liquidity Position. 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, 2014, ISA had USD 945 million of cash, available credit lines up to COP $ 1.15 million and a Free Cash Flow for COP 875.515 million. The coverage cash-short term debt is 2,65x, this measure is considered as a strong coverage ratio.

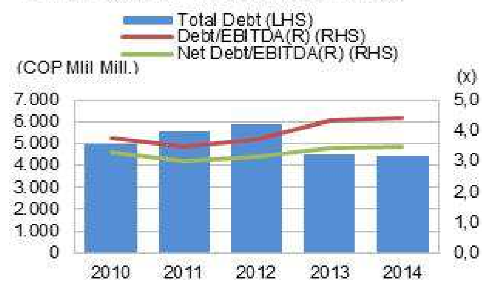
Financial Flexibility. ISA has a wide access to the financial markets in Latin America given its track record in markets such as Colombia, Peru, Brazil and Chile. ISA has extensive funding sources with available credit lines and possibility to increase capital through equity issuances, which provides high financial flexibility.

Debt Maturities and Liquidity

As of mar. 31, 2014	USD Mill
Current Maturity	236
Two Year	269
Three Year	328
Four Year	275
Five Year	293
Beyond Five Years	3.120
CFFO	931
Cash	945
Undrawn Committed Facilities	

Source: ISA

Total Debt and Leverage Ratios



Source: ISA

Leverage below Expectations. As of March 31, 2014 ISA´s consolidate debt was USD 4.425 million. The largest concentration is in Chile 48,5% and Colombia 20,6%, taken primarily to finance road assets and energy transport, respectively. Fitch's analysis incorporated as adjusted debt USD 450 million in respect of ISA Capital preferred shares. Financial leverage during 2013 and 2014 has evolved below expectations, maintaining leverage below 4.5 times.

Total Debt and Leverage Ratios

USD$ Millions	2010	2011	2012	2013	LTM Mar. 2014
Total Debt (LHS)	4.949	5.540	5.890	4.524	4.425
Debt/EBITDA(R) (RHS)	3,8	3,5	3,7	4,3	4,4
Net Debt/EBITDA(R) (RHS)	3,3	3,0	3,1	3,4	3,5

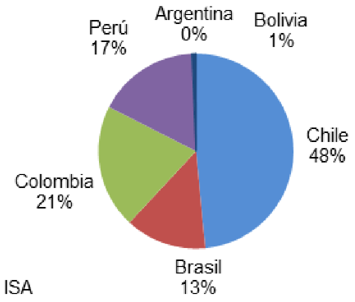
Source: ISA

The Rating base case scenario incorporates a moderate level of leverage for the next years. In the medium term is expected a slight deleveraging, which takes the metric debt-EBITDA near 4.0x .

ISA Capital Preferred Shares Repurchase Renegotiation. The rating incorporates as a favorable factor the flexibility in the repurchase of the preferred shares of ISA Capital. The new amortization plan extends through 2020, reducing repurchases in 2014 and 2015, which takes off the cash flow pressure. During 2014 and 2015, the company will pay about $ 44.5 million. Between the periods 2016 and 2020 around USD334 million will be paid.

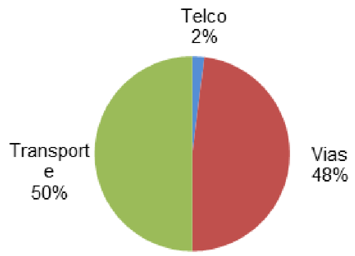
ISA Capital agreed to pay shareholders preferential fixed semiannual dividends at a commission rate of CDI+1.5%, which will be effective from the year 2011 and could be accumulated up to three times or five non-consecutive terms. The preferred shares will be repurchased from July 2014 to December 2020. Given the nature of these stocks (a quarterly dividend, buyback option), Fitch has these stocks as part of the consolidated debt.

Debt by Country



Source: ISA

Debt by Sector



Source: ISA

Cash Flow Analysis

ISA maintains a strong financial profile, which is characterized by having stable EBITDA margins and operating cash flows over time; and a dividend policy that fits the investment plan of the company. During March 2014, ISA consolidated revenue and EBITDA were USD$ 1.005 billion and $ USD 1.919 million. Dividends received during the same year reached USD $ 66.629 million; Transelca and REP were the major contributors.

Despite de leveraged nature of the road concessions business, profit margins are similar to those seen in the electricity transmission business, resulting in near 60% consolidated margins.

Strong Cash Generation. Historically ISA Holding has generated enough Cash Flow from Operations (CFO) to cover their capital investments and pay dividends, keeping positive free cash flows (FCF). In the last three years ISA consolidated FCO average has been around USD $ 1,100 million. For 2014 and 2015 is expected to FCO keeps around USD$ 1,500 million, considered sufficient resources to meet its credit obligations. The start-up of major transmission projects in Peru and Colombia will support revenue growth during 2014 and 2015.

Exigent Investment Plan. ISA maintains high dynamic performance of investments. On a consolidated basis in 2013 ISA invested about $ 1.4 trillion, spread between Chile 29%, Colombia 17%, Brazil 25,8% and Peru 26%. In the next three years is expected that investments remain around USD $ 1.6 billion. This high execution of investments allows the company to strengthen its revenue and maintain profitability levels. The business of power transmission and highway concessions remain contributions of 68% and 26% of revenues in the coming years.

Strong Dividend Distribution. ISA´s dividend policy has been in the range of 55% to 70% of net income each year, depending on the investment needs of the company. ISA Group has the policy that its subsidiaries should finance their investment needs independently, and if is necessary establish a dividend policy restricted to the Holding.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
28-may-2014	BBB	Stable
30-may-2013	BBB	Stable
01-jun-2012	BBB-	Positive
03-jun-2011	BBB-	Stable
25-oct-2010	BBB-	Stable

"RW" denotes Rating Watch

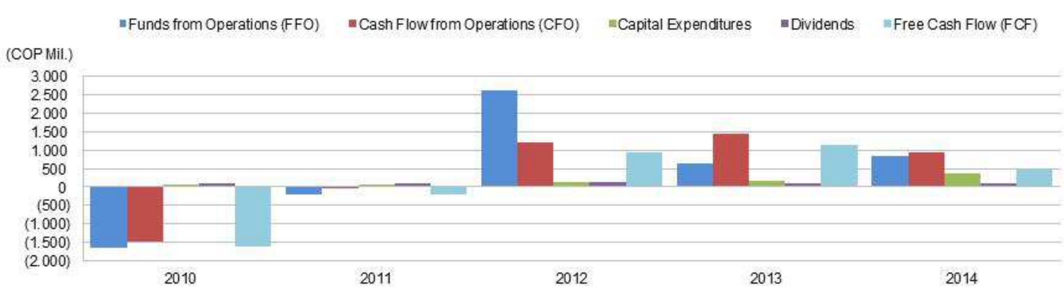
Cash Flow Analysis - Interconexion Electrica S.A. E.S.P. - ISA

COP Millions	2010	2011	2012	2013	Mar LTM 2014
Revenues	1851	2.364	2.388	1926	1919
EBITDA	1312	1604	1580	1042	1005
Net Income	181	182	151	232	270
Depreciation and Amortization	326	417	469	212	114
Funds from Operations (FFO)	**(1.654)**	**(203)**	**2.622**	**627**	**823**
Change in Working Capital	188	165	(1428)	814	108
Cash Flow from Operations (CFO)	**(1.466)**	**(38)**	**1.194**	**1.441**	**931**
Capital Expenditures	56	62	136	181	367
Dividends	92	101	136	111	108
Free Cash Flow (FCF)	**(1.614)**	**(201)**	**922**	**1.149**	**456**
Capital Expenditures / Revenues (%)	3,0	2,6	5,7	9,4	19,1
FCF Margin (%)	(87,2)	(8,5)	38,6	59,7	23,8
FFO Adjusted Leverage	(3,4)	18,5	1,8	4,2	3,6
Total Adjusted Debt to EBITDAR	3,8	3,6	3,7	4,5	4,5
Total Adjusted Net Debt to EBITDAR	3,3	3,1	3,1	3,5	3,5

Source: ISA

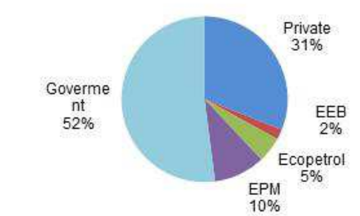
Positive Free Cash Flow 2014 and 2015. The next three years will be years of high cash outflow arising from high capital investment of the expansion plan and the demanding dividend policy. Despite this, in ISA consolidated projection scenario for the periods between 2014 and 2015, the free cash flow will remain positive, generating enough cash to keep their strong service debt coverage. During 2013, ISA executed Capex for $ 574 million, was distributed dividends for $ 108 million and free cash flow was $ 456 million USD.

Cash Flow Performance



Source: ISA

Shareholders ISA



Source: ISA

Company Profile

ISA is a mix capital company where 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% of the property and the other 33.1% of shares are spread throughout the market.

Interconexión Eléctrica S.A. E.S.P. (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 the countries where it has operations. ISA also has interest 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 roads concessions.

Operations

Transmission

ISA's main business is power transmission and it has operations in the following countries: Colombia, Peru, Brasil and Bolivia where ISA is one of the major participants. This business represents 68% of total revenues. P

Low Risk Business. The electric transmission business is characterized by regulated or guaranteed income for defined periods. About 90% of ISA's individual revenues (generated in Colombia) are regulated and tariffs are revised every five years. Over the past two years, the regulator has developed new regulatory parameters, which took effect before year end 2010. These tariff changes resulted in a modest revenue increase of approximately 0.5%. The balance 10% of revenues in ISA's revenues are generated under bilateral contracts with annual inflation adjustments and no regulatory tariff reviews for a pre-set period of approximately 20 years (ending 2031-2032).

Favourable Outlook. 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 Governments of Chile, Colombia and Peru have been very proactive to promote investments in their respective countries, estimated investments of USD $ 3.7 billion over the next years.

Concession Roads

ISA officially entered to this business with Intervial Chile (Fromerly Cointra Chile) acquisition in September 2010. ISA paid app. USD290 million to Cintra España for 60% stake of Intervial Chile. The transaction was funded with 60% own resources and 40% debt through a loan with BBVA Colombia for USD124 million. In December 2011, ISA acquired the remaining 40% stake 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 5 out of the 8 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.

Growth Potential. Colombia has a high growth potential in terms of road infrastructure. In the next five years investments of USD 5,000 million are estimated. ISA hopes to capture opportunities arising from this expansion, and benefit from the experience gathered in Chile.

Telecommunications

ISA participates in the telecom transportation 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 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.

Financial Summary — Interconexion Electrica S.A. E.S.P. - ISA

USD Mil., Year Ending dic. 31	LTM				
Profitability	**Mar. 31, 2014**	**2013**	**2012**	**2011**	**2010**
EBITDA	1005	1042	1580	1604	1312
EBITDAR	1005	1042	1580	1604	1312
EBITDA Margin (%)	52,4	54,1	66,2	67,8	70,9
EBITDAR Margin (%)	52,4	54,1	66,2	67,8	70,9
FFO Return on Adjusted Capital (%)	12,1	10,4	27,4	2,7	(13,3)
Free Cash Flow Margin (%)	23,7	59,6	38,6	(8,5)	(87,2)
Return on Average Equity (%)	4,7	4,0	2,7	3,1	3,3
Coverage (x)					
FFO Interest Coverage	2,9	2,3	6,0	0,6	(8,5)
EBITDA/Gross Interest Expense	2,3	2,2	3,0	3,1	7,5
EBITDAR/Interest Expense +Rents	2,3	2,2	3,0	3,1	7,5
EBITDA/Debt-Service Coverage	1,3	1,3	1,2	1,2	2,3
EBITDAR/Debt-Service Coverage	1,3	1,3	1,2	1,2	2,3
FFO Fixed Charge Coverage	2,9	2,3	6,0	0,6	(8,5)
FCF Debt Service Coverage	1,1	2,1	1,1	0,2	(2,5)
(FCF+Cash and Marketable Securities)/Debt-Service Coverage	2,3	3,3	1,9	0,8	(1,4)
Cash Flow from Operations/Capital Expenditures	2,5	8,0	8,8	(0,6)	(26,2)
Leverage (x)					
FFO Adjusted Leverage	3,5	4,1	1,9	17,6	(3,3)
Total Debt with Equity Credit/EBITDA	4,4	4,3	3,7	3,5	3,8
Total Net Debt with Equity Credit/EBITDA	3,5	3,4	3,1	3,0	3,3
Total Adjusted Debt/EBITDAR	4,4	4,3	3,7	3,5	3,8
Total Adjusted Net Debt/EBITDAR	3,5	3,4	3,1	3,0	3,3
Implied Cost of Funds (%)	9,1	9,8	10,3	11,4	5,4
Secured Debt/Total Debt	—	—	—	—	—
Short-Term Debt/Total Debt	0,1	0,1	0,1	0,2	0,1
Balance Sheet					
Total Assets	13.108	13.296	14.553	13.752	13.490
Cash and Marketable Securities	945	947	947	729	633
Short-Term Debt	356	304	762	799	408
Long-Term Debt	4.069	4.220	4.542	4.100	3.821
Total Debt	**4.425**	**4.524**	**5.304**	**4.899**	**4.229**
Total Equity	5.728	5.801	5.808	5.583	6.098
Total Adjusted Capital	**10.153**	**10.325**	**11.698**	**11.123**	**11.047**
Cash Flow					
Funds from Operations	823	627	2.622	(203)	(1654)
Change in Working Capital	108	814	(1428)	165	188
Cash Flow from Operations	**931**	**1.441**	**1.194**	**(38)**	**(1.466)**
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capital Expenditures	(367)	(181)	(136)	(62)	(56)
Common Dividends	(108)	(111)	(136)	(101)	(92)
Free Cash Flow (FCF)	**456**	**1.149**	**921**	**(201)**	**(1.614)**
Net Acquisitions and Divestitures	(1)	1	3	(57)	(126)
Other Investments, Net	(207)	(319)	(454)	—	—
Net Debt Proceeds	(354)	(491)	166	761	1912
Net Equity Proceeds	(10)	—	—	—	—
Other (Investments and Financings)	46	(263)	(490)	(393)	(70)
Total Change in Cash	**(70)**	**77**	**146**	**109**	**102**
Income Statement					
Revenue	1919	1926	2.388	2.364	1851
Revenue Growth (%)	(0,4)	(19,3)	1,0	27,7	20,7
EBIT	891	830	1.111	1.187	986
Gross Interest Expense	434	480	524	518	174
Rental Expense	—	—	—	—	—
Net Income	270	232	151	182	181

Source: ISA