FITCH RATES INTERCONEXION ELECTRICA S.A. 'BBB-'; OUTLOOK STABLE

Fitch Ratings-Bogota-25 October 2010: Fitch Ratings has assigned Interconexion Electrica S.A. E.S.P. (ISA) a 'BBB-' local and foreign currency Issuer Default Rating (IDR). The Rating Outlook is Stable.

ISA's ratings reflect the company's strong financial profile characterized by stable and predictable cash flows, comfortable liquidity levels and adequate credit metrics. The ratings are underpinned by ISA's low business risk profile, which is characteristic of power transmission business and reflects its natural monopoly position and geographic diversification.

STABLE CASH FLOW, REGULATED MONOPOLY:
ISA's ratings reflect the company's low business risk level supported by its regulated income and natural monopoly position. On a consolidated basis, electric transmission accounts for 94% of ISA's revenues, and Colombia operations account for 37% and 30% of cash flow. Revenues from electric transmission operations in Colombia are regulated and its tariffs are reset every five years. Previous tariff resets have not resulted in significant changes due to the balanced regulatory environment in Colombia, which aims at providing adequate returns on investment.

ISA operates in Brazil through a 37.5% indirect controlling stake in Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP, IDR 'AA(bra)'). Although ISA's financial results consolidate CTEEP, the company does not fully benefits from this subsidiary's cash flow generation given its ownership position. CTEEP has not paid dividends to ISA Colombia since the company acquired a controlling stake in 2006. Going forward, CTEEP's cash flows distributions to ISA are expected to be low as a result of the subsidiary's investment strategy. ISA also generates cash flow from its investments in Peruvian and Bolivian transmission companies. During the last 12 months ended June 2010, these assets represented 9% of ISA's cash flow generation.

STRONG BALANCE SHEET, GORWING LEVERAGE:
ISA's strong financial profile, which is characterized by strong cash generation, low debt levels and healthy interest coverage, is expected to moderate as a result of the company's growth and acquisition strategy. For the last 12 months (LTM) ended June 30, 2010, ISA reported a consolidated EBITDA of USD 1.2 billion and total consolidated adjusted debt of USD 2.4 billion. This translates into a leverage ratio, as measured by total debt-to-EBITDA of 2.0 times (x), which is considered strong for the rating category. Interest coverage, as measured by EBITDA-to-interest expense is considered adequate for the rating category at 6.1x as of the LTM ended June 30, 2010.

AGGRESSIVE EXPANSION PLAN:
ISA's expansion plan is considered somewhat aggressive as the company expects to double its revenues over the next six years by investing, for the most part, in electric transmission businesses inside and outside Colombia. In the future, the company expects to generate approximately 20% of its revenue from other transportation projects, such as toll roads and engineering, procurement and construction services. Recently, ISA signed an agreement to acquire 60% of Cintra Infraestructuras de Espana S.A.'s assets in Chile for approximately USD290 million, which are expected to be funded with debt (50%) and cash on hand (50%). The company's incursion into the toll roads infrastructure businesses does not materially alter ISA's business risk profile as electric transmission is expected to continue generating the majority (75%) of its cash flow.

The company's aggressive growth strategy will weaken ISA's credit metrics. Total capital investment over the next five years is expected to amount to approximately USD4.8 billion and to be financed with debt 30% and internal cash flow generation 70%. The company's capital investments and associated financing strategy will result on a consolidated leverage of approximately 4.0x and interest coverage of approximately 2.5x. Stand alone leverage may temporarily increase as the company guarantees USD442 million of debt at one of the recently acquired Chilean toll roads during construction. As a result, stand alone leverage as of year end 2010 is expected to range approximately between 3.8x to 4.0x, which is considered somewhat high for the rating category. Consolidated and stand alone leverage ratios are expected to decline from 2011 onwards. However, further recurrent increases in leverage above these levels will likely pressure credit quality and could result in a rating downgrade.

SOLID LIQUIDITY LEVELS:
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 June 2010, ISA had approximately USD672 million of consolidated cash on hand, of which USD272 million was at the holding company. ISA's outstanding debt of USD2.4 billion is composed of USD 640 million in local bonds in Colombia; USD 174 million in Peru through REP and Transmantaro; USD 308 million in Brazil through CTEEP; USD 522 million through preferred shares in ISA Capital and the remaining amount in banks and multilateral entities. ISA's maturity profile is manageable. As of June, 2010, short-term debt was USD 244 million and accounted for 13% of total consolidated debt. Going forward, ISA's liquidity position is expected to remain healthy as a result of the company's stable cash flow generation.

Contact:

Primary Analyst
Milena Carrizosa Lora
Director
+(571) 3269999 Ext. 1090
Fitch Ratings Colombia
Calle 69A #9-23
Bogota, Colombia

Secondary Analyst
Lucas Aristizabal
Director
+1-312-368-3260

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
'Corporate Rating Methodology' (Aug. 16, 2010).

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646