Fitch Affirms Interconexion Electrica S.A.'s IDR at 'BBB-'; Outlook Stable

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Fitch Ratings-Bogota- 3 June 2011: Fitch Ratings has affirmed Interconexion Electrica's foreign and local currency Issuer Default Rating (IDR) at 'BBB-'. Fitch has also affirmed Interconexion Electrica's local bonds listed at the end of this release at 'AAA(col)'. The Rating Outlook is Stable.

The ratings of Interconexion Electrica S.A. (ISA) 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 the power transmission business and reflects the company's natural monopoly position and geographic diversification.

TRANSMISSION BUSINESS' STABLE 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, 2011, electric transmission accounted for 86.8% of ISA's consolidated revenues and nearly 89% of ISA's consolidated EBITDA. ISA on a standalone basis accounted for 23.1% of its consolidated EBITDA for the same LTM period. Most of the revenues from electric transmission operations in Colombia (70%) 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 37.6% indirect controlling stake in Companhia de Transmissao de Energia Eletrica Paulista S.A. [CTEEP, rated 'AA+(bra)' by Fitch]. Although ISA's financial results consolidate CTEEP, the company does not fully benefit from this subsidiary's cash flow generation given its ownership position. CTEEP accounts for around 54% of ISA's consolidated EBITDA. ISA also generates cash flow from its investments in Peruvian transmission companies (6.8% of consolidated EBITDA). Both the Brazilian and Peruvian operations have most of their revenues guaranteed by regulated tariffs adjusted annually by inflation during their concession periods.

STRONG BALANCE SHEET SUPPORTS LEVERAGE INCREASE

ISA has a strong financial profile, which is characterized by strong cash generation, low debt levels and healthy interest coverage. However, ISA's consolidated credit metrics are somewhat affected by the increase in debt after Cintra Chile's acquisition (now Intervial).

For the LTM ended March 31, 2011, ISA reported a consolidated EBITDA of USD1.4 billion and total consolidated adjusted debt of USD4.9 billion (including USD532 million of ISA Capital preferred shares). This translates into a leverage ratio, as measured by total debt-to-adjusted EBITDA of 3.5 times (x). Interest coverage, as measured by EBITDA-to-interest expense is 6.1x, considered acceptable for ISA's rating category. Once Intervial consolidates a full year with the company's consolidated figures, ISA's consolidated credit metrics will be around 3.2x for debt-to-adjusted EBITDA and 3.2x for EBITDA-to-interest expense, which is considered adequate for the company's rating category given its core business strengthens.

AGGRESSIVE EXPANSION PLAN

Fitch considers ISA's expansion plan to be somewhat aggressive as the company expects to have revenues of USD3.5 billion (from the current USD2 billion) over the next six years by investing, for the most part, in electric transmission businesses inside and outside Colombia. In 2016, the company expects to generate approximately 20% of its revenue from businesses different from transmission, such as toll roads and engineering, procurement and construction services. In line with its strategy, in September 2010 ISA signed an agreement to acquire 60% of Cintra Chile (now Intervial), the major concession road operator in Chile. During the LTM ended March 31, 2011, Intervial accounted for 9.7% of ISA's consolidated revenues. In Fitch's opinion, the company's incursion into the toll roads infrastructure business 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 could weaken ISA's consolidated credit metrics. ISA's individual figures would not be affected because major investments will be executed at the subsidiary level. Total capital investment over the next five years is expected to amount to approximately USD4.3 billion to be financed 30% with debt and 70% with internal cash flow generation. The company's capital investments and associated financing strategy will result on a consolidated leverage of approximately 3.7x and interest coverage of approximately 3.5x.

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, 2011, ISA had approximately USD689 million of consolidated cash on hand and USD504 million of consolidated short-term debt. ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread between 2011 and 2030.

ISA's short-term debt has been around 15% of total debt over the years. In the medium term, ISA's liquidity position is expected to remain healthy as a result of the company's stable cash flow generation. As of March 31, 2011, ISA standalone had USD41 million of cash and marketable securities, which together with available credit lines of USD341 million will allow the company to meet its USD101 million of current maturities.

Fitch affirms the following issues at 'AAA(col)':

-- ISA's COP$1.7 billion bond program;

-- ISA's COP$130 million bond issuance.

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

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' Aug. 16, 2010;
--'Parent and Subsidiary Rating Linkage' July 14, 2010;
--'Liquidity Considerations for Corporate Issuers' June 12, 2007.