FitchRatings

Corporates

Electric-Corporate / Colombia

Interconexion Electrica S.A. E.S.P. (ISA)

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB–

Local Currency

Long-Term IDR	BBB–

National

COP1.7 Bil. Bond Program	AAA(col)
COP130 Mil. Bond Issuance	AAA(col)

IDR – Issuer default rating.

Rating Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable

Financial Data

Interconexion Electrica S.A. E.S.P. (Consolidated Figures)

(USD Mil.)	LTM 6/30/11	12/31/10
Total Assets	14,803	13,490
Cash and Marketable Securities	738	633
Total Debt with Equity Credit	5,487	4,949
Revenues	2,187	1,851
EBITDA	1,527	1,312
EBITDA Margin (%)	70	71
Total Debt with Equity Credit/ EBITDA (x)	3.5	3.8
EBITDA/Gross Interest Expense (x)	4.7	7.5

Related Research

Rating Latin American Utilities, Power, Gas and Water Companies, July 27, 2011

2011 Outlook: Latin American Power Sector, Jan. 4, 2011

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Key Rating Drivers

Stable, Predictable Cash Flow: Interconexion Electrica S.A. E.S.P.'s (ISA) ratings reflect the company's low business risk level that is 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 extraordinarily stable and predictable. As of June 30, 2011, electric transmission accounted for 83.6% and 82.9% of ISA's consolidated revenues and EBITDA, respectively.

Strong Balance Sheet Supports Leverage Increase: 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 Cintra Chile's acquisition (now Intervial). Once Intervial consolidates a full year with the company's consolidated figures, ISA's consolidated leverage will be approximately 3.5x, which is considered adequate for the company's rating category given its low business risk.

Aggressive Expansion Plan: ISA's expansion plan is considered somewhat aggressive as the company expects to almost double its revenues over the next six years. This will be driven, for the most part, by investing in electric transmission businesses inside and outside of Colombia. ISA expects to generate approximately 20% of its revenue from businesses different from transmission. In September 2010 ISA signed an agreement to acquire 60% of Cintra Chile (now Intervial), the major toll road operator in Chile.

Robust Liquidity: ISA's liquidity is characterized by healthy cash on hand levels, manageable debt amortization, and adequate access to local and international capital markets. As of June 30, 2011, ISA's consolidated cash on hand was approximately USD738 million, which compares favorably to consolidated short-term debt of USD535 million. ISA's maturity profile is manageable as its long-term debt amortization schedule is spread between 2011 and 2030. In the medium term, ISA's liquidity position is expected to remain healthy, supported by its stable cash flow generation.

What Could Trigger a Rating Action

Positive Rating Drivers: ISA's credit quality would benefit from increasing cash flow and dividends participation from subsidiaries located outside of Colombia.

Negative Rating Drivers: A negative rating action could result from a combination of: a significant increase in the debt level, deteriorating operating performance, regulatory intervention, and/or greater than expected investments in high business risk assets.

Recent Events

By the end of 2010, Companhia de Transmissao de Energia Electrica Paulista (CTEEP), ISA's subsidiary in Brazil, acquired the remaining 40% stake in Interligacao Electrica de Minas Gerais (IEMG), reaching the total ownership in IEMG. IEMG began operations in 2008 and operates the transmission line Neves 1-Mesquita in the state of Minas Gerais.

During 2010, Empresa Propietaria de la Red (EPR, ISA holds an 11.11% stake) ended its first transmission section (178 km), which integrates SIEPAC (Electric Interconnection System for Central American Countries). The section corresponds to the transmission line connecting substations Rio Claro (Costa Rica) and Veladero (Panama). For 2011, EPR expects to complete the remaining sections of the project to interconnect six countries of Central America (1,800 km of transmission lines).

In September 2010, ISA signed an agreement with Cintra Infraestructuras de España S.A. to acquire 60% of shares in Cintra Chile for USD290 million. The investment was funded with 60% of the company's resources (coming from a capital increase made in December 2009) and 40% with debt. Cintra's acquisition increased ISA's consolidated leverage due to the leveraged nature of the new business. Fitch does not expect a significant change in ISA's business risk profile as a result of this transaction. In the medium term, Fitch expects ISA's consolidated leverage to range between 3.5x and 4.5x, while its interest coverage could be between 2.5x and 3.5x.

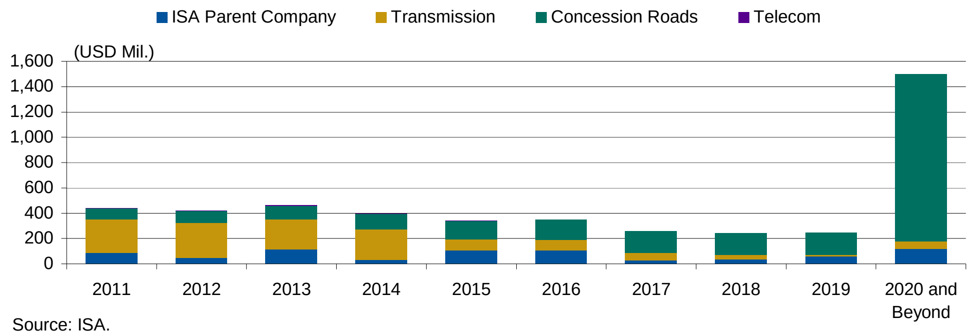
In January 2010, ISA signed an agreement with the Colombian government to develop technical, legal, and financial feasibility studies for a toll road project called "Autopistas de la Motana" (Mountain Highway). Depending on the outcome of the study, ISA will carry out the project. The project consists of building, operating, maintaining, and transferring (BOMT) toll road in Colombia, with an expected construction time of 10–15 years. This BOMT consists of a 31-year concession contract with the possibility to extend up to 50 years.

Liquidity and Debt Structure

ISA's liquidity is considered strong. Its short-term debt-to-total debt ratio has been approximately 15% over the past few years. ISA presents a variety of liquidity instruments that provide the company strong financial flexibility. In this sense, ISA has a good track record of accessing different capital markets, such as Colombia, Brazil, Peru, and recently Chile, through Intervial. As of June 30, 2011, on a stand-alone basis, ISA had USD54 million of cash and marketable securities, which, together with available credit lines of USD341 million, allow the company to meet its USD106 million of current debt maturities.

As of June 30, 2011, ISA's consolidated debt of USD5.5 billion was composed of debt at its concession road subsidiaries (42%), electric transmission subsidiaries (43.9%), and by debt at ISA's stand-alone level (13.9%).

Long-Term Maturities — ISA Consolidated



Source: ISA.

Related Criteria

Corporate Rating Methodology, Aug. 12, 2011

Furthermore, 53.9% of consolidated debt corresponds to bond issuances in Colombia, Chile, Peru, Brazil, and the United States; 32.1% to multilateral and bank loans; and the remaining 14% to ISA Capital's preferred shares. ISA's consolidated debt is mainly denominated in Chilean UF (unidades de fomento), Brazilian reais, and Colombian pesos. Its long-term debt amortization schedule is evenly spread between 2011 and 2030.

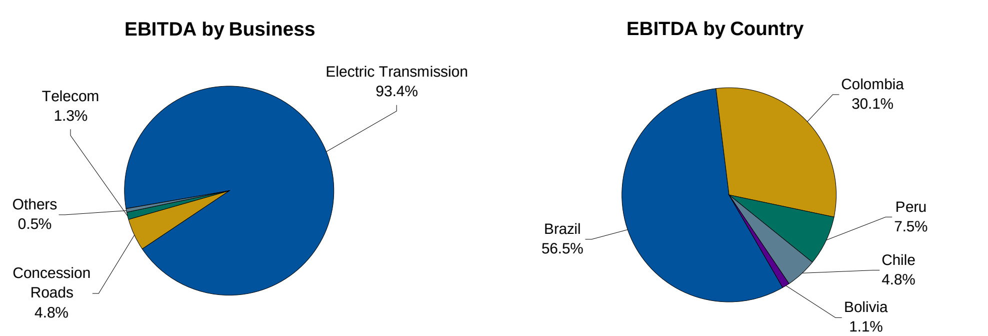
Cash Flow and Coverage Ratios

ISA's financing policy plans to finance its subsidiaries independently, and, if necessary, restrict dividend flows to the parent company. During the LTM ended June 30, 2011, ISA's consolidated revenues totaled USD2.2 billion, 18.2% higher than the USD1.9 billion reported in 2010. This was mainly due to the incorporation of Intervial in its consolidated figures (since October 2010). Consolidated EBITDA for the LTM ended June 30, 2011 was USD1.5 billion, and the consolidated EBITDA margin was 70%.

Despite the high-leverage nature of the concession roads business, profitability margins are relatively similar to those of the electric transmission business; therefore, Fitch does not expect ISA's consolidated margins to be affected by Intervial's incorporation.

ISA (the parent company) has a solid financial profile, characterized by stable EBITDA margins over the years (close to 65%), cash from operations of over USD160 million annually, adequate leverage levels, and a dividend policy, according to its investment plan.

2010 Consolidated EBITDA Breakdown



Source: ISA.

For the LTM ended June 30, 2011, ISA reported a consolidated leverage ratio, as measured by total debt to adjusted EBITDA of 3.5x. Interest coverage, as measured by EBITDA to interest expense is 4.7x and 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 3.5x for debt to adjusted EBITDA and 3.4x for EBITDA to interest expense, which is considered adequate for the company's rating category given its core business strengths.

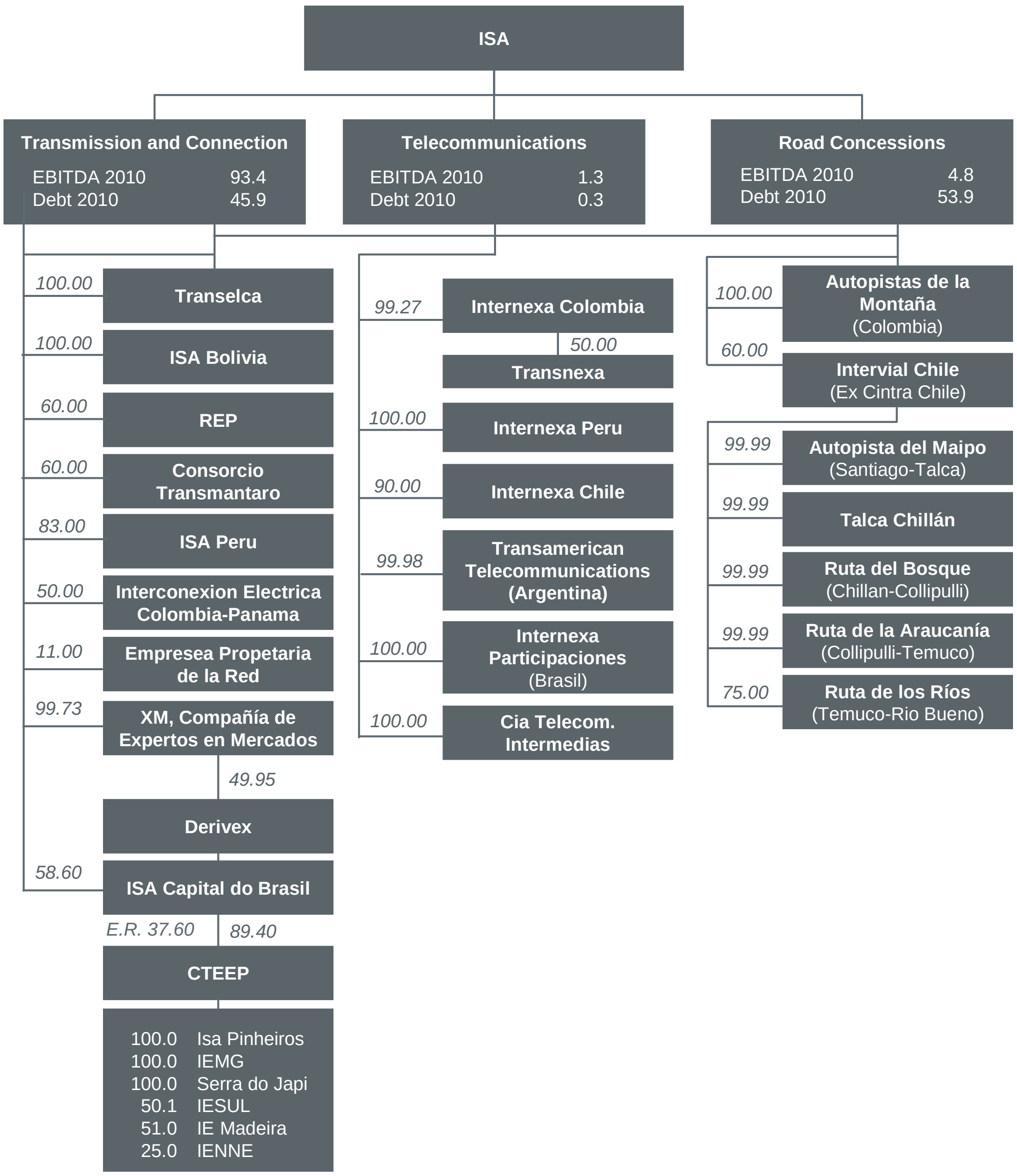
On a stand-alone basis, ISA's debt-to-adjusted EBITDA ratio (including dividends received from subsidiaries) was 2.2x, and its EBITDA-to-interest expense ratio was 6.9x. These metrics are considered robust for the rating category.

In the medium term, ISA's consolidated leverage should increase if the company decides to develop the Autopistas de la Montana's Project. Fitch has not considered the impact of this project on ISA's financial profile in its analysis since there is still uncertainty about its development and the investment it would require.

Company Overview and Strategy

ISA is the largest transmission company in Colombia with 38,989 km of transmission lines in the country and abroad. ISA also has interest in other transmission companies throughout Latin

Organization Structure — Interconexion Electrica S.A. E.S.P. (ISA)
(%)



E.R. – Economic rights.
Source: ISA.

America, including Peru's two largest transmission companies (60% share) and one of the largest transmission companies in Brazil (CTEEP). ISA also renders other services such as fiber optic telecommunications and the operation, management, and construction of infrastructure and road concessions.

ISA is a state-owned 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.

Ownership

	%
Colombian Government	51.41
Empresas Públicas De Medellín	10.17
Ecopetrol	5.32
Empresa de Energía de Bogotá	1.67
Floating	31.43

Source: ISA.

The company's goal is to reach USD3.5 billion in revenues by 2016, of which 80% will be generated outside of Colombia and 20% will be revenues generated by businesses other than the core business. In order to achieve its goals, the company will continue to expand its electric transmission and toll road assets throughout Latin America, primarily in those countries already present (i.e. Colombia, Brazil, Peru, Chile, and Panama). Investments in electric transmission infrastructure projects over the next five years are expected to be approximately USD2.2 billion. Investments in toll road construction are somewhat uncertain at the present time given that the company is in the planning phase, yet a fair estimate could be approximately USD3.5 billion over the next 10 years (USD1.7 billion within five years).

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 June 30, 2011, Intervial accounted for 13.2% 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 be approximately USD4.3 billion and financed 30% with debt and 70% with internal cash flow generation. The company's capital investments and associated financing strategy will result in a consolidated leverage of approximately 3.7x and interest coverage of approximately 3.5x.

ISA — Electric Infrastructure

	Transmission (Circuit km)	
	Current	In Development
Colombia		
ISA	10,115	24
Transelca	1,547	—
	11,662	**24**
Peru		
REP	5,837	398
Transmantaro	1,369	1,746
ISA Peru	393	—
	7,599	**2,144**
Brazil		
CTEEP	18,968	296
IEMG	172	—
Other Subsidiaries	—	2,584
	19,140	**2,880**
Bolivia		
ISA Bolivia	588	—
Total ISA	**38,989**	**5,048**

Source: ISA.

Operations

Electric Transmission Business

The electric transmission business is characterized by regulated or guaranteed income for defined periods. 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 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. During 2010, CTEEP accounted 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 during 2010). Both the Brazilian and Peruvian operations have most of their revenues guaranteed by regulated tariffs adjusted annually by inflation during their concession periods.

Historically, ISA has been actively participating in the electric transmission bidding processes. The company has been awarded numerous BOMT projects in Brazil, Peru, and Colombia for approximately 5,048 km of transmission lines and an estimated investment of USD2.1 billion. In Central America, ISA will enter the electric transmission business through its participation in SIEPAC and the interconnection system between Colombia and Panama.

Road Concessions

In December 2009, ISA signed an agreement with Cintra Infraestructuras of Spain to acquire 60% of the property of Cintra Chile Ltda. The transaction was formalized in 2010 and implied ISA's incursion in the road concessions business. Cintra Chile Ltda (now Intervial Chile) is the largest operator of toll road concessions in Chile. Cintra 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.

Apart from that, in Colombia, ISA is conducting feasibility studies to assess the Autopistas de la Montana Project's development, a highway concession that consists of building four corridors (900-km dual toll roads) to connect Antioquia state to Puerto Berrio, Caucasia, Eje Cafetero, and Uraba. The construction time would be 10–15 years, and the concession time is 31 years with possibility to extend up to 50 years.

ISA — Road Infrastructure

		Km of	End of	Traffic (Number of Vehicles)		
	Section	Road	Concession	2010	2009	2008
Cintra Chile (Intervial Chile)						
Ruta del Maipo	Santiago — Talca	237	2044	88,913	76,296	72,301
Ruta del Maule	Talca — Chillán	193	2026	50,175	45,168	44,361
Ruta del Bosque	Chillán — Collipulli	161	2024	29,084	26,108	26,486
Ruta de la Araucanía	Collipulli — Temuco	144	2033	32,691	30,632	30,423
Ruta de los Ríos	Temuco — Rio Bueno	172	2023	20,979	19,747	20,614
Total Chile		**907**		**221,842**	**197,951**	**194,185**

Source: ISA.

Telecommunications

ISA participates in telecom transportation through its subsidiary, Internexa. Internexa has operations in Colombia, Ecuador, Peru, Chile, and Venezuela. By the end of 2011, the company expects to begin operations in Argentina and Brazil. ISA's intention is to consolidate its operations as the major network operator in South America, through the connection of seven countries.

Telecom Connectivity Infrastructure

	Optic Fiber (km)	
	Current Access	In Development
Colombia	6,652	—
Peru	1,293	380
Chile	1,181	—
Ecuador	926	—
Venezuela[a]	1,977	—
Argentina	—	2,577
Brazil	—	3,506
Total	**12,029**	**6,463**

[a]Associated with a local operator.
Source: ISA.

ISA's connectivity infrastructure is based on a fiber optic network of 12,029 km that connects Colombia, Ecuador, Peru, and Venezuela across 63 cities. ISA's capex plan for the telecom transportation business involves investments of about USD97 million.

Financial Summary — Interconexión Electrica S.A. (Consolidated)

(USD Mil., Years Ended Dec. 31)

Period-End Exchange Rate	1,780.2	1,914.0	2,043.2	2,243.6	2,014.7
Average Exchange Rate	1,838.4	1,897.8	2,156.0	1,966.3	2,077.8

	LTM 6/30/11	**2010**	**2009**	**2008**	**2007**
Profitability (%)					
Operating EBITDA	1,527	1,312	1,086	1,147	941
Operating EBITDA Margin (%)	70.0	70.9	70.8	71.3	69.3
FFO Return on Adjusted Capital (%)	N.A.	(14.2)	9.2	13.5	4.2
Free Cash Flow Margin (%)	N.A.	(87.2)	25.6	22.8	(70.6)
Return on Average Equity (%)	3.7	3.2	3.6	3.3	3.3
Coverage (x)					
FFO Interest Coverage	N.A.	(8.5)	3.4	3.9	1.0
Operating EBITDA/Gross Interest Expense	4.7	7.5	6.0	5.3	4.1
Operating EBITDA/Debt Service Coverage	1.8	2.3	1.8	1.9	1.6
FFO Fixed Charge Coverage	N.A.	(8.5)	3.3	3.9	1.0
FCF Debt Service Coverage	N.A.	(2.5)	0.9	1.0	(1.2)
(Free Cash Flow + Cash and Marketable Securities)/Debt Service Coverage	N.A.	(1.4)	1.7	1.4	(0.6)
Cash Flow from Operations/Capital Expenditures	N.A.	(26.2)	6.8	4.3	(0.2)
Capital Structure and Leverage (x)					
FFO Adjusted Leverage	N.A.	(3.4)	3.5	2.9	9.9
Total Debt with Equity Credit/Operating EBITDA	3.6	3.8	2.0	2.1	2.5
Total Net Debt with Equity Credit/Operating EBITDA	2.8	3.3	1.5	1.8	2.1
Implied Cost of Funds	9.9	5.2	8.4	8.9	11.3
Short-Term Debt/Total Debt	0.1	0.1	0.2	0.2	0.2
Balance Sheet					
Total Assets	14,803	13,490	8,344	6,436	6,893
Cash and Marketable Securities	738	633	498	287	391
Short-Term Debt	535	408	436	385	371
Long-Term Debt	4,184	3,821	1,805	1,689	2,053
Total Debt	**4,719**	**4,229**	**2,241**	**2,074**	**2,423**
Equity Credit	(769)	(720)	—	—	—
Total Debt with Equity Credit	**5,487**	**4,949**	**2,241**	**2,070**	**2,419**
Total Equity	6,466	6,098	4,727	3,440	3,381
Total Adjusted Capital	**11,953**	**11,047**	**7,005**	**5,576**	**5,804**
Cash Flow					
Funds from Operations	N.A.	(1,654)	426	631	9
Change in Working Capital	N.A.	188	122	(56)	(153)
Cash Flow from Operations	**N.A.**	**(1,466)**	**548**	**575**	**(144)**
Capital Expenditures	N.A.	(56)	(80)	(133)	(755)
Dividends	N.A.	(92)	(74)	(75)	(61)
Free Cash Flow	**N.A.**	**(1,614)**	**393**	**367**	**(959)**
Net Acquisitions and Divestitures	N.A.	(126)	49	77	0
Other Investments, Net	N.A.	0	0	0	119
Net Debt Proceeds	N.A.	1,912	(222)	(303)	578
Net Equity Proceeds	N.A.	0	178	0	192
Other, Financing Activities	N.A.	(70)	(226)	(213)	21
Total Change in Cash	**N.A.**	**102**	**173**	**(72)**	**(49)**
Income Statement					
Net Revenue	2,187	1,851	1,534	1,610	1,358
Revenue Growth (%)	—	20.7	(4.7)	18.5	52.3
Operating EBIT	1,140	986	809	873	619
Gross Interest Expense	322	174	181	216	229
Net Income	223	181	146	120	109

N.A. – Not available. Note: Numbers may not add due to rounding.
Source: ISA.

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