

MOODY'S

INVESTORS SERVICE

Rating Action: **Moody's affirms ISA's Baa2 rating; outlook revised to stable**

24 May 2019

New York, May 24, 2019 -- Moody's Investors Service ("Moody's") has today affirmed the Baa2 issuer rating of Interconexión Eléctrica S.A. E.S.P. (ISA). At the same time, Moody's revised the outlook to stable from negative.

This action follows Moody's recent rating action on the government of Colombia where the rating agency affirmed Colombia's long-term local and foreign-currency issuer, senior unsecured debt ratings and foreign-currency shelf senior unsecured ratings at Baa2/(P)Baa2 and changed the outlook to stable from negative (https://www.moodys.com/research/Moodys-changes-Colombias-outlook-to-stable-from-negative-affirms-Baa2--PR_400670).

RATINGS RATIONALE

ISA's rating affirmation and outlook revision to stable from negative reflect the overall linkages in credit profile that ISA has with the Colombian sovereign. These linkages, in combination, come in the form of (i) the relative importance of Colombian operations, representing 25% of consolidated EBITDA in 2018; (ii) the highly regulated nature of the energy sector and the potential exposure to political interference and/or regulatory risks; (iii) relative reliance on Colombian banking relationships and capital markets to refinance local currency denominated obligations. It further reflects ISA's nature as a Government Related Issuer (GRI).

The affirmation of the baseline credit assessment (bca) of baa2 is reflective of ISA's standalone credit profile, and captures the underlying credit quality of its operating assets, modest leverage with FFO to Debt of 21.2% as of December 2018, and an aggressive capital investment program, estimated at \$4.4 billion in 2019 and 2020. The bca also reflects the geographic and business diversification, holding operations in seven countries with activities in electricity transmission, toll roads, and fiber optics.

The Issuer rating of Baa2 reflects the underlying credit quality of the Government of Colombia (Baa2 stable) as the majority shareholder of ISA with a 51.4% share of the company, and our assessment of 'Very High' default dependence and 'Moderate' extraordinary support in case of financial distress.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward pressure on ISA's rating could arise upon a substantial improvement in credit metrics combined with continued diversification. Quantitatively, that could happen upon FFO to Debt reaching levels above 30% and Interest Coverage reaching above 6.0x.

ISA's issuer rating could be downgraded upon downgrades of the sovereign ratings of the countries in which ISA holds substantial operations, in particular Brazil, Peru, and Colombia. Furthermore, the rating could be downgraded if the conclusion of the tariff review process in Colombia, expected for 2019, causes a significant decrease in the company's cash flow generation levels. Negative rating pressure could also result from a more aggressive capital spending plan, or if the company faces any significant delays or cost overruns that significantly delay or dent the recovery of its key credit metrics while maintaining dividend distributions. Quantitatively, ISA's rating could be downgraded if FFO to Debt reaches levels below 15% and Interest Coverage reaches levels below 3.0x.

The methodologies used in these ratings were Regulated Electric and Gas Networks published in March 2017, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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