STANDARD & POOR'S RATINGS SERVICES
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Press Release

Standard & Poor's outlook revised to negative for three Colombian companies following similar action on sovereign rating

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Summary

- On February 16, 2016, we revised the outlook of the Republic of Colombia to negative from stable. At the same time, we confirmed our 'BBB' long-term credit rating in foreign currency and our 'BBB+' long-term credit rating in local currency for the sovereign. We also confirmed our 'A-2' sovereign short-term ratings on foreign and local currency.
- After this rating action, we revised the rating outlook of three local companies to negative from stable.
- We also confirmed our 'BBB' global scale ratings for these companies.

Rating Action

Mexico City, February 19, 2016.- Standard & Poor's Ratings Services revised its outlook for Grupo de Inversiones Suramericana SA, Emgesa SA E.S.P. and Interconexión Eléctrica S.A. E.S.P. (ISA) to negative from stable. At the same time, we confirmed our 'BBB' long-term credit ratings for those three companies.

The revised outlook on the three companies follows a similar rating action on the Republic of Colombia (foreign currency: BBB/Negative/A-2; local currency: BBB+/Negative/A-2). We believe that these three companies would not succeed a stress test under a scenario of sovereign default, which makes it highly unlikely that any of them remains in its current rating level, in case of a downgrade of the sovereign foreign currency rating. Ultimately, if a sovereign default in foreign currency takes place, we believe that there is a high probability that these three issuers would also fall into default.

The revised outlook on Colombia reflects the risks that its external position may deteriorate further, particularly if the government fails to implement appropriate fiscal measures to contain its budget deficit.

Colombia's ratings reflect its record of strong fiscal and monetary policies together with a significant improvement in the conditions of internal security during the past decade, which have supported higher investment, growth and strength of the economy in terms of trade and other external factors. The government took advantage of the favorable prices of

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international commodities in recent years to make structural changes in its fiscal policy, improve its debt profile and develop its local capital market.

The negative outlook on Colombia reflects the risk that its fiscal and external position could deteriorate beyond the expectations of our baseline scenario, if the government is unable to implement fiscal measures in 2016 to help stabilize its increasing debt levels and reduce economic imbalances.

We could lower the ratings if peace talks with the main guerrilla group take longer than expected or if political developments weaken the government's ability to tighten the fiscal policy through a combination of spending and revenue measures. If, contrary to our expectations, the peace process suffers significant setbacks, the government would have difficulties to take timely and appropriate fiscal measures, especially amid a slowing economy. Under such a scenario, the burden of government debt would increase and would probably further erode the weakened external profile of Colombia, which would result in a downgrade.

The ratings could be stabilized if, according to our baseline scenario, the peace process moves forward, which would facilitate the ability of the government to strengthen the fiscal outlook with a combination of spending cuts and increased revenues. Furthermore, the successful implementation of investment projects associated with the 4G infrastructure government program would help sustain GDP growth, which would cushion the impact of low commodity prices and, thus, contribute to economic stability and fiscal revenues.

Criteria and Related Items

Criteria

- *Investment Holding Companies*, December 1, 2015.
- Rating of Government-Related Entities (*Entidades Relacionadas con el Gobierno,* ERGs): Methodology and Assumptions, March 25, 2015.
- Methodology and Assumptions: Liquidity Descriptors for corporate issuers, December 16, 2014.
- Methodology for rating companies, November 19, 2013.
- Methodology for rating companies: Indices and Settings, November 19, 2013.
- Methodology and assumptions for the assessment of country risk, November 19, 2013.
- Methodology: Risk of industry, November 19, 2013.
- Key Credit Factors for Transport Infrastructure Industry, November 19, 2013.
- Key Credit Factors Criteria for Regulated Utilities Industry, November 19, 2013.
- Above the sovereign ratings - Ratings for companies and governments: Methodology and Assumptions, Nov. 19, 2013.
- Methodology: Credit factors of management and corporate governance for companies and insurers, November 13, 2012.
- Individual Credit Profiles: A component of ratings, October 1, 2010.
- Criteria: Use of CreditWatch and Perspectives, September 14, 2009.

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Related Articles

- Standard & Poor's revises Colombia's outlook to negative given its external weakness; confirms 'BBB/A2' foreign currency ratings, February 16, 2016.

Some terms used herein, particularly some adjectives used to express our opinion on important rating factors, have specific meanings ascribed to them in our criteria and, therefore, they should be read in conjunction therewith. For more information see our Rating Criteria in www.standardandpoors.com.mx

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