FitchRatings

Corporates
Electric-Corporate
Colombia

Interconexion Electrica S.A. E.S.P.

Fitch Ratings affirmed the Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of Interconexion Electrica S.A. E.S.P. (ISA) at 'BBB+' and revised the Outlook to Negative from Stable in April 2020. Fitch also affirmed ISA's senior unsecured local bond and CP program ratings at 'AAA(col)' and 'F1+(col)', respectively, with a Stable Outlook.

The Negative Outlook reflects the linkage of ISA's ratings with the Republic of Colombia, which owns 51.4% of the company. Recently, the sovereign rating was downgraded to 'BBB–' with a Negative Outlook. Fitch considers ISA's business and financial profile strong enough to be rated two notches above Colombia. A negative rating action on the sovereign rating would impact ISA's ratings to preserve the two-notch differential with its parent.

ISA's Standalone Credit Profile is 'bbb+', which reflects the company's low business risk profile, a characteristic of the power transmission business. The ratings incorporate the strong geographic and business diversification of its revenue source, which, along with the high predictability of cash flow from operations (CFO), translates into a strong financial profile. ISA's adequate liquidity position and aggressive growth strategy are factored into its ratings.

Key Rating Drivers

Low Business Risk Profile: ISA's low business risk profile stems from its participation in regulated natural monopolies, as well as its geographic diversification across seven Latin American countries. Around 69.5% of 2019 consolidated revenues, excluding construction, came from investment-grade countries, namely Colombia, Peru and Chile, while Brazil represented 28.8%.

The electricity transmission business, which has represented the bulk of ISA's consolidated cash flows, contributed 82.9% of EBITDA in 2019. ISA maintains low business risk, as its revenues are regulated in each country and it has no exposure to demand risk.

Highly Predictable CFO: ISA's CFO stability benefits from its strong and diversified portfolio of energy transmission assets, along with its participation in other businesses that have limited demand risk. ISA's energy transmission business is not exposed to volume risk, as its revenues do not depend on the amount of energy transported but on the availability of the transmission lines in each country where it operates.

In the road concession business, the second-largest business for ISA, the company operates five concessions in Chile that incorporate a compensation mechanism should the concessions register low traffic volumes, either extending the concession period for Ruta del Maipo, Ruta del Maule, Ruta del Bosque and Ruta del Araucania, or receiving a minimum income guarantee, for Ruta de los Rios.

Manageable Regulatory Risk: Fitch believes ISA's businesses and geographic diversification effectively hedge its exposure to regulatory risk, as the vast majority of its revenues are regulated. To the extent there is no material correlation among the different regulatory frameworks that drive ISA's revenues, Fitch views its cash flow as resilient against some adverse regulatory scenarios.

Fitch's analysis incorporates the expected regulatory reset in the electricity transmission tariff in Colombia. Although there is limited visibility on the final tariff that will be approved, Fitch does not believe the outcome will result in material pressure on ISA's financial metrics. This is due to the fair and balanced nature of local regulations as well as the limited portion of the company's consolidated revenues exposed to a regulatory change.

Rating

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Local Currency IDR	BBB+	Negative	Affirmed April 28, 2020
Long-Term IDR	BBB+	Negative	Affirmed April 28, 2020
Standalone Credit Profile	bbb+	—	New Rating Affirmed April 28, 2020

Click here for full list of ratings

Applicable Criteria

Corporate Rating Criteria – Effective from 27 March 2020 to 1 May 2020 (March 2020)

Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (February 2020)

Government-Related Entities Rating Criteria (November 2019)

National Scale Ratings Criteria (July 2018)

Related Research

Colombian Gencos Resilient to Cash Flow Volatility (April 2020)

Fitch Affirms Interconexion Electrica S.A. E.S.P.'s Ratings; Revises Outlook to Negative (April 2020)

Fitch Downgrades Ecopetrol, Ocensa and Al Candelaria, Affirms Other Colombian Corporates (April 2020)

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Aggressive Growth Strategy: ISA's growth strategy is based on active participation in bidding for energy transmission and other infrastructure projects, as well as inorganic growth through the acquisition of stakes in companies that operate in ISA's core businesses. ISA's long-term goal is to reach COP8 trillion in EBITDA by 2030, as well as investing USD12.5 billion in current and new businesses and geographies over the next 13 years.

Fitch expects the company to continue to face pressure on FCF in the next two years, as ISA's most recent capex plan for 2020–2024 implies investments of around USD3.7 billion, mostly concentrated in 2020–2021 in projects in Colombia, Peru and Brazil.

Adequate Credit Metrics: ISA's credit metrics reflect solid cash flows, moderate debt levels and adequate liquidity. Fitch expects the company to maintain leverage below 4.0x over the rating horizon, considering only projects underway and the scheduled start of new projects over the next few years. Fitch considers this leverage commensurate with ISA's ratings, given the stability and predictability of its CFO. Fitch does not believe the company's aggressive growth strategy will deteriorate its financial credit metrics. As of YE 2019, leverage was 3.2x.

Standalone Approach: Under Fitch's *Government-Related Entities Rating Criteria*, ISA's ratings are derived from the company's creditworthiness on a standalone basis, as it is considered moderately linked to the Colombian government (BBB–/Negative). ISA is a financially strong government-related entity, which has had no need for support.

Fitch considers the regulatory framework fair and balanced. Auction processes in the electricity transmission segment are competitive and open to different market participants. Other shareholders owning nearly 49% of the company are mostly controlled by private and institutional investors. Seven out of nine of ISA's board members are independent

Financial Summary

(COP Mil., as of Dec. 31)	2018	2019	2020F	2021F
Revenue	7,173,967	8,139,008	10,131,715	10,068,890
Operating EBITDAR Margin (%)	70.6	67.8	54.2	60.6
FCF	(1,497,030)	190,921	(3,682,107)	(1,503,399)
Total Debt with Equity Credit/Operating EBITDA (x)	3.3	3.2	3.7	3.6
Operating EBITDA/Interest Paid (x)	5.3	4.9	4.4	4.2

F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Rating Derivation Relative to Peers

ISA's credit profile positively compares to peers in the region, including Transelec S.A. (BBB/Stable), Alupar Investimento S.A. (BB/Negative), Transmissora Alianca de Energia Eletrica S.A. (Taesa; BB/Negative) and Consorcio Transmantaro S.A. (CTM; BBB–/Positive). These companies benefit from a low business risk profile and predictable cash flow. ISA is rated one notch higher than its closest peer, Transelec, and two notches above CTM, given its large scale of geographically diversified operations in the transmission business and road concessions, which together account for around 97.5% of its EBITDA, as well as its more conservative capital structure.

Compared with Taesa and Alupar, ISA's higher rating is mainly a result of the countries from which it generates its main revenues. Most of ISA operations are in investment-grade countries, namely Colombia, Chile and Peru, while Taesa's and Alupar's ratings are negatively affected by Brazil's 'BB' Country Ceiling.

ISA is also well positioned among national peers that participate in the electricity transmission business, such as Grupo Energia Bogota S.A. E.S.P. (GEB; BBB/Stable) and Empresas Publicas de Medellin E.S.P. (EPM; BBB/Rating Watch Negative). Together, these companies own and operate the vast majority of the electricity transmission network in Colombia. ISA's and EPM's credit profiles benefit from greater business and geographic diversification, as well as limited dependence on dividends received from their noncontrolling stakes within their CFO structure. ISA's cash flow is stronger, given its predictability, while EPM's Rating Watch Negative reflects uncertainty related to the development of its key project, the Ituango dam.

Navigator Peer Comparison

Issuer	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility
		Business profile							Financial profile	
Alupar Investimento S.A.	BB/Neg	bb-	bbb-	bbb	bbb+	a-	bbb-	bbb	bb	bb+
Consorcio Transmantaro S.A. (CTM)	BBB-/Pos	bbb-	bbb	bbb+	a-	bbb	bbb+	bbb	b	bbb
Empresas Publicas de Medellin E.S.P. (EPM)	BBB/RWN	bbb	a-	bbb+	bbb-	bbb	bbb+	bbb+	bbb-	a-
Grupo Energia Bogota S.A. E.S.P. (GEB)	BBB/Sta	bbb-	bbb-	bbb	bbb	bbb	bbb	bbb-	bbb	bbb-
Transelec S.A.	BBB/Sta	a+	bbb	bbb+	a-	bbb	bbb+	bbb	b	bbb
Transmissora Alianca de Energia Eletrica S.A.	BB/Neg	bb-	bbb-	bbb	bbb	bbb	bbb-	bbb	bbb	bbb
Interconexion Electrica S.A. E.S.P.	BBB+/Neg	bbb-	a-	bbb+	bbb+	bbb+	bbb+	bbb+	bbb	bbb+

Source: Fitch Ratings. Importance: Higher / Moderate / Lower

Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility
		Business profile							Financial profile	
Alupar Investimento S.A.	BB/Neg	-1.0	2.0	3.0	4.0	5.0	2.0	3.0	0.0	1.0
Consorcio Transmantaro S.A. (CTM)	BBB-/Pos	0.0	1.0	2.0	3.0	1.0	2.0	1.0	-5.0	1.0
Empresas Publicas de Medellin E.S.P. (EPM)	BBB/RWN	0.0	2.0	1.0	-1.0	0.0	1.0	1.0	-1.0	2.0
Grupo Energia Bogota S.A. E.S.P. (GEB)	BBB/Sta	13.0	13.0	14.0	14.0	14.0	14.0	13.0	14.0	13.0
Transelec S.A.	BBB/Sta	4.0	0.0	1.0	2.0	0.0	1.0	0.0	-6.0	0.0
Transmissora Alianca de Energia Eletrica S.A.	BB/Neg	10.0	13.0	14.0	14.0	14.0	13.0	14.0	14.0	14.0
Interconexion Electrica S.A. E.S.P.	BBB+/Neg	-2.0	1.0	0.0	0.0	0.0	0.0	0.0	-1.0	0.0

Source: Fitch Ratings. Worse positioned than IDR / In line with IDR / Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- A positive rating action is not likely in the short to medium term, given the company's credit metric expectations and growth strategy.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A sustained increase in leverage above 4.5x on a consolidated or nonconsolidated basis, as a result of progressive deterioration in cash generation, or increased debt levels above Fitch's base case scenario;
- Regulatory changes that put significant pressure on ISA's cash flow generation;
- A more aggressive strategy in terms of leverage, capex or acquisitions;
- A negative action in Colombia's rating.

Liquidity and Debt Structure

Adequate Liquidity: ISA's liquidity is considered adequate and is characterized by healthy cash on hand, strong and predictable CFO, manageable debt amortization and strong access to local and international capital markets. As of YE 2019, ISA had approximately COP4.9 trillion to service COP1.7 trillion of short-term debt. At the holding level, cash on hand totaled COP541 billion and short-term debt was COP215 billion.

ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread until 2047. At the holding level, ISA's debt maturities for 2020–2021 comprise only credit loans with a maximum annual amortization of COP183 billion, which is manageable. At a consolidated level, Fitch expects ISA to continue recording negative FCF in 2020–2021, given required capex of around COP9.9 trillion in granted projects. Fitch expects consolidated debt maturities to be refinanced.

ESG Considerations

The highest level of Environmental, Social and Governance (ESG) credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturities with No Refinancing

Liquidity Analysis

(COP Mil.)	12/31/18	12/31/19
Total Cash and Cash Equivalents	1,522,060	2,487,201
Short-Term Investments	912,334	2,384,381
Less: Not Readily Available Cash and Cash Equivalents	0	0
Fitch-Defined Readily Available Cash and Cash Equivalents	**2,434,394**	**4,871,582**
Availability Under Committed Lines of Credit	0	0
Total Liquidity	**2,434,394**	**4,871,582**
LTM EBITDA After Associates and Minorities	5,186,699	5,608,156
LTM FCF	(1,497,030)	190,921

Source: Fitch Ratings, Fitch Solutions, Interconexion Electrica S.A. E.S.P.

Scheduled Debt Maturities

(COP Mil.)	12/31/19
2020	1,698,042
2021	1,062,638
2022	1,100,645
2023	2,684,358
2024	0
Thereafter	11,211,874
Total	**17,757,557**

Source: Fitch Ratings, Fitch Solutions, Interconexion Electrica S.A. E.S.P.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenue and EBITDA projected for 2020–2023 incorporate the development of projects already granted;
- Changes in the regulatory remuneration of the power transmission business in Colombia with neutral effect;
- The electricity transmission business continues to account for more than 70% of ISA's consolidated revenues over the rating horizon;
- Revenues and EBITDA from investment-grade countries represent more than 50% of consolidated results for ISA;
- Capex for the next several years reflects the construction stage in new projects awarded to the company and subsidiaries.

Financial Data

(COP Mil., as of Dec. 31)	Historical 2017	2018	2019	Forecast 2020	2021	2022
Summary Income Statement						
Revenue	5,699,243	7,173,967	8,139,008	10,131,715	10,068,890	9,573,178
Revenue Growth (%)	(13.8)	25.9	13.5	24.5	(0.6)	(4.9)
Operating EBITDA (Before Income from Associates)	3,685,599	5,064,677	5,519,284	5,495,197	6,105,714	6,235,622
Operating EBITDA Margin (%)	64.7	70.6	67.8	54.2	60.6	65.1
Operating EBITDAR	3,685,599	5,064,677	5,519,284	5,495,197	6,105,714	6,235,622
Operating EBITDAR Margin (%)	64.7	70.6	70.6	54.2	60.6	65.1
Operating EBIT	2,553,496	4,038,060	4,460,301	4,514,297	4,941,947	5,022,656
Operating EBIT Margin (%)	44.8	56.3	54.8	44.6	49.1	52.5
Gross Interest Expense	(967,433)	(1,089,905)	(1,202,478)	(1,251,762)	(1,440,989)	(1,495,178)
Pretax Income (Including Associate Income/Loss)	3,260,106	3,184,121	3,531,177	3,331,075	3,540,091	3,568,702
Summary Balance Sheet						
Readily Available Cash and Equivalents	1,486,270	2,434,394	4,871,582	1,565,317	1,648,964	1,557,013
Total Debt with Equity Credit	15,689,028	17,190,586	17,757,557	20,263,382	21,850,429	20,974,784
Total Adjusted Debt with Equity Credit	15,775,602	17,275,200	17,857,777	20,263,382	21,850,429	20,974,784
Net Debt	14,202,758	14,756,192	12,885,975	18,698,065	20,201,465	19,417,771
Summary Cash Flow Statement						
Operating EBITDA	3,685,599	5,064,677	5,519,284	5,495,197	6,105,714	6,235,622
Cash Interest Paid	(679,074)	(979,005)	(1,155,037)	(1,251,762)	(1,440,989)	(1,495,178)
Cash Tax	(926,612)	(1,154,797)	(982,706)	(729,023)	(774,767)	(781,029)
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	122,022	88,872	0	0	0
Other Items Before FFO	522,209	(133,517)	150,894	0	0	0
Funds Flow from Operations	2,710,503	2,998,428	3,673,910	3,582,953	3,929,091	4,000,640
FFO Margin (%)	47.6	41.8	45.1	35.4	39	41.8
Change in Working Capital	(260,303)	(418,553)	(83,623)	(737,163)	23,241	183,379
Cash Flow from Operations (Fitch Defined)	2,450,200	2,579,875	3,590,287	2,845,790	3,952,332	4,184,019
Total Non-Operating/Nonrecurring Cash Flow	0	0	0	—	—	—
Capex	(2,271,409)	(2,213,344)	(2,229,569)	—	—	—
Capital Intensity (Capex/Revenue) (%)	39.9	30.9	27.4	—	—	—
Common Dividends	(858,082)	(1,863,561)	(1,169,797)	—	—	—
FCF	(679,291)	(1,497,030)	190,921	—	—	—
Net Acquisitions and Divestitures	1,758	2,317	9,706	—	—	—
Other Investing and Financing Cash Flow Items	(1,957,078)	263,945	224,154	0	0	0
Net Debt Proceeds	3,017,320	1,211,277	554,944	2,505,825	1,587,047	(875,645)
Net Equity Proceeds	0	0	(14,582)	0	0	0
Total Change in Cash	382,709	(19,491)	965,143	(1,176,282)	83,648	(91,951)
Leverage Ratios (x)						
Total Net Debt with Equity Credit/Operating EBITDA	3.9	2.9	2.3	3.4	3.3	3.1
Total Adjusted Debt/Operating EBITDAR	4.3	3.3	3.2	3.7	3.6	3.4
Total Adjusted Net Debt/Operating EBITDAR	3.9	2.9	2.3	3.4	3.3	3.1
Total Debt with Equity Credit/Operating EBITDA	4.3	3.3	3.2	3.7	3.6	3.4
FFO Adjusted Leverage	4.8	4.4	3.7	4.3	4.1	3.8
FFO Adjusted Net Leverage	4.4	3.8	2.7	3.9	3.8	3.6
FFO Leverage (x)	4.8	4.4	3.7	4.3	4.1	3.8

Financial Data

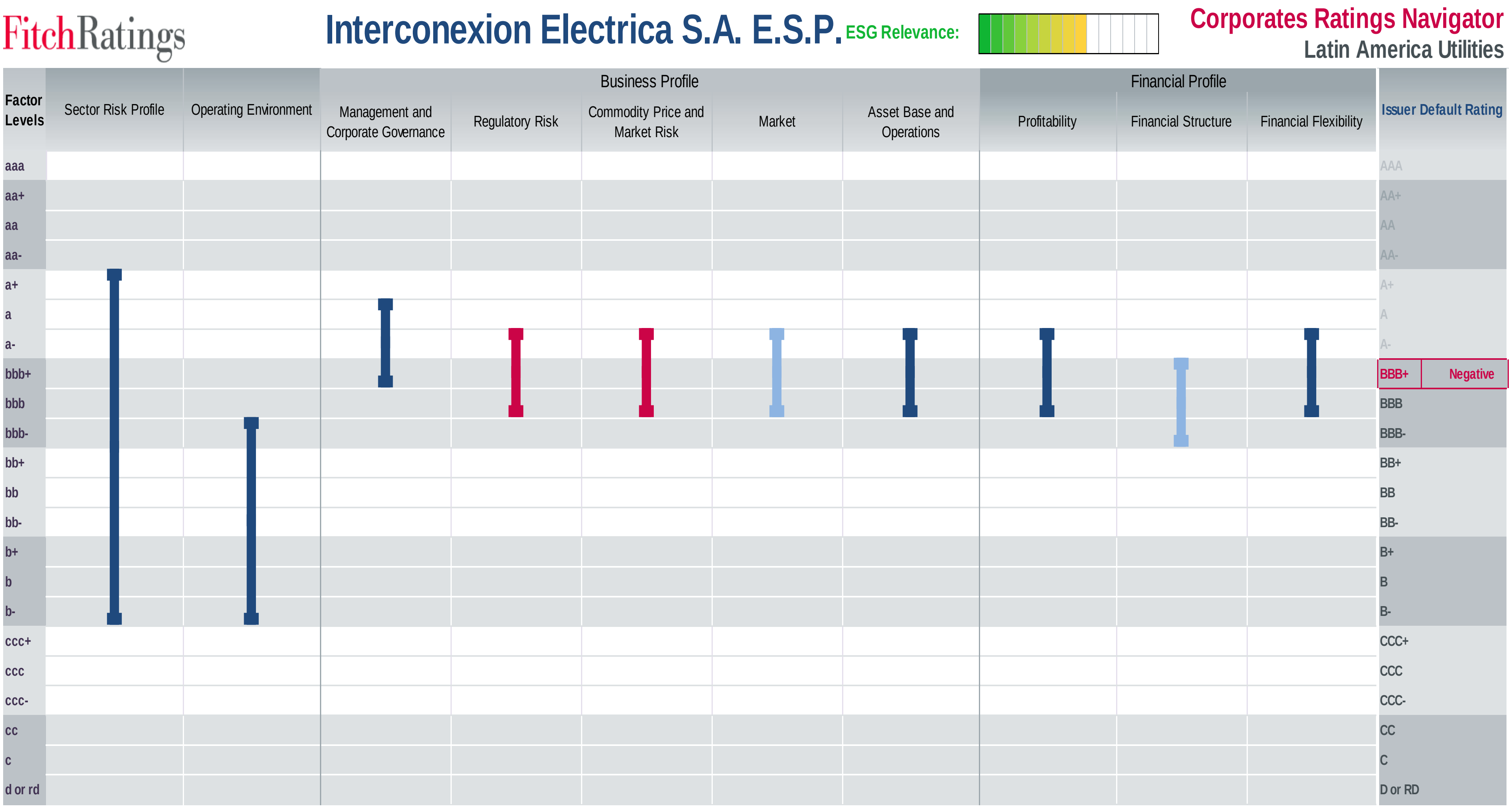
	Historical			Forecast		
(COP Mil., as of Dec. 31)	2017	2018	2019	2020	2021	2022
FFO Net Leverage (x)	4.4	3.8	2.7	3.9	3.8	3.6
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	(3,127,733)	(4,074,588)	(3,389,660)	(6,527,897)	(5,455,731)	(3,400,325)
FCF After Acquisitions and Divestitures	(677,533)	(1,494,713)	200,627	(3,682,107)	(1,503,399)	783,694
FCF Margin (After Net Acquisitions) (%)	(11.9)	(20.8)	2.5	(36.3)	(14.9)	8.2
Coverage Ratios (x)						
FFO Interest Coverage	4.8	4.0	4.1	3.8	3.7	3.6
FFO Fixed Charge Coverage	4.8	4.0	4.1	3.8	3.7	3.6
Operating EBITDAR/Interest Paid + Rents	5.4	5.3	4.9	4.4	4.2	4.2
Operating EBITDA/Interest Paid	5.4	5.3	4.9	4.4	4.2	4.2
Additional Metrics (%)						
CFO-Capex/Total Debt with Equity Credit	1.1	2.1	7.7	(14.1)	(0.9)	10.3
CFO-Capex/Total Net Debt with Equity Credit	1.3	2.3	9.1	(15.3)	(1.0)	11.2

CFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlo ok, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. Th e forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but ass umes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



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FitchRatings

Interconexion Electrica S.A. E.S.P.

Corporates Ratings Navigator
Latin America Utilities

Operating Environment

bbb	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
bbb-	Financial Access	bbb	Average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bb	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'bb'.
b-			
ccc+			

Management and Corporate Governance

a+	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb			

Regulatory Risk

a	Independence	a	Strong regulatory independence from central government.
a-	Balance	a	Balanced framework between end users' and sector participants' needs. It seeks low tariffs for users and attractive return on capital.
bbb+	Transparency	bbb	The tariff-setting procedure is transparent and includes the participation of industry players.
bbb	Recourse of Law	bbb	Procedures to appeal regulatory rulings are clear but long processing periods. Companies can oppose or comment on regulations.
bbb-	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.

Commodity Price and Market Risk

a	Price and Volume Risk	a	Company has low exposure to changes in price and costs (i.e. all costs are timely passed through). Exposure to volume risk is low.
a-	Counterparty Risk	bbb	Weighted average credit quality of actual and potential offtakers is in line with 'BBB' rating.
bbb+			
bbb			
bbb-			

Market

a	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.
a-	Customer Mix	bbb	Somewhat diversified customer base.
bbb+	Geographic Location	a	Favorable location or high geographic diversity.
bbb	Supply Demand Dynamics	a	Beneficial outlook for prices and rates.
bbb-			

Asset Base and Operations

a	Asset Diversity	a	High quality and/or large-scale diversified assets.
a-	Reliability of Operations and Cost Position	bbb	Reliability and cost of operations at par with industry averages with moderate operating losses.
bbb+	Exposure to Environmental Regulations	bbb	Limited or manageable exposure to environmental regulations.
bbb	Capital and Technological Intensity of Capex	bbb	Moderate reinvestment requirements in established technologies.
bbb-			

Profitability

a	Volatility of Profitability	a	Higher stability and predictability of profits relative to utility peers.
a-	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb+			
bbb			
bbb-			

Financial Structure

a-	FFO Leverage	bbb	4.25x
bbb+	FFO Net Leverage	bbb	3.5x
bbb	Total Debt With Equity Credit/Op. EBITDA	bbb	4.0x
bbb-			
bb+			

Financial Flexibility

a	Financial Discipline	bbb	Less conservative policy but generally applied consistently.
a-	Liquidity (Cash+CFO)/S-T Debt	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb+	FFO Interest Coverage	bbb	4.5x
bbb	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place.
bbb-			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

Interconexion Electrica S.A. E.S.P. has 9 ESG potential rating drivers

- Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)
- Regulatory-driven access and affordability targets of utility services
- Quality and safety of products and services; data security
- Impact of labor negotiations and employee (dis)satisfaction
- Social resistance to major projects that leads to delays and cost increases
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	3	issues	2
	2	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings

Interconexion Electrica S.A. E.S.P.

Corporates Ratings Navigator
Latin America Utilities

Credit-Relevant ESG Derivation

Interconexion Electrica S.A. E.S.P. has 9 ESG potential rating drivers

- Interconexion Electrica S.A. E.S.P. has exposure to extreme weather events but this has very low impact on the rating.
- Interconexion Electrica S.A. E.S.P. has exposure to access/affordability risk but this has very low impact on the rating.
- Interconexion Electrica S.A. E.S.P. has exposure to customer accountability risk but this has very low impact on the rating.
- Interconexion Electrica S.A. E.S.P. has exposure to labor relations & practices risk but this has very low impact on the rating.
- Interconexion Electrica S.A. E.S.P. has exposure to social resistance but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	3	issues	2
	2	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Asset Base and Operations; Regulatory Risk; Profitability; Financial Structure
Energy Management	2	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Asset Base and Operations; Commodity Price and Market Risk; Profitability; Financial Structure
Water & Wastewater Management	1	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Asset Base and Operations; Regulatory Risk; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	2	Impact of waste including pollution incidents; discharge compliance; sludge, coal ash	Asset Base and Operations; Regulatory Risk; Profitability
Exposure to Environmental Impacts	3	Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)	Asset Base and Operations; Commodity Price and Market Risk; Profitability

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Regulatory-driven access and affordability targets of utility services	Asset Base and Operations; Regulatory Risk; Profitability
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulatory Risk; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Profitability; Financial Structure

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale: 5, 4, 3, 2, 1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

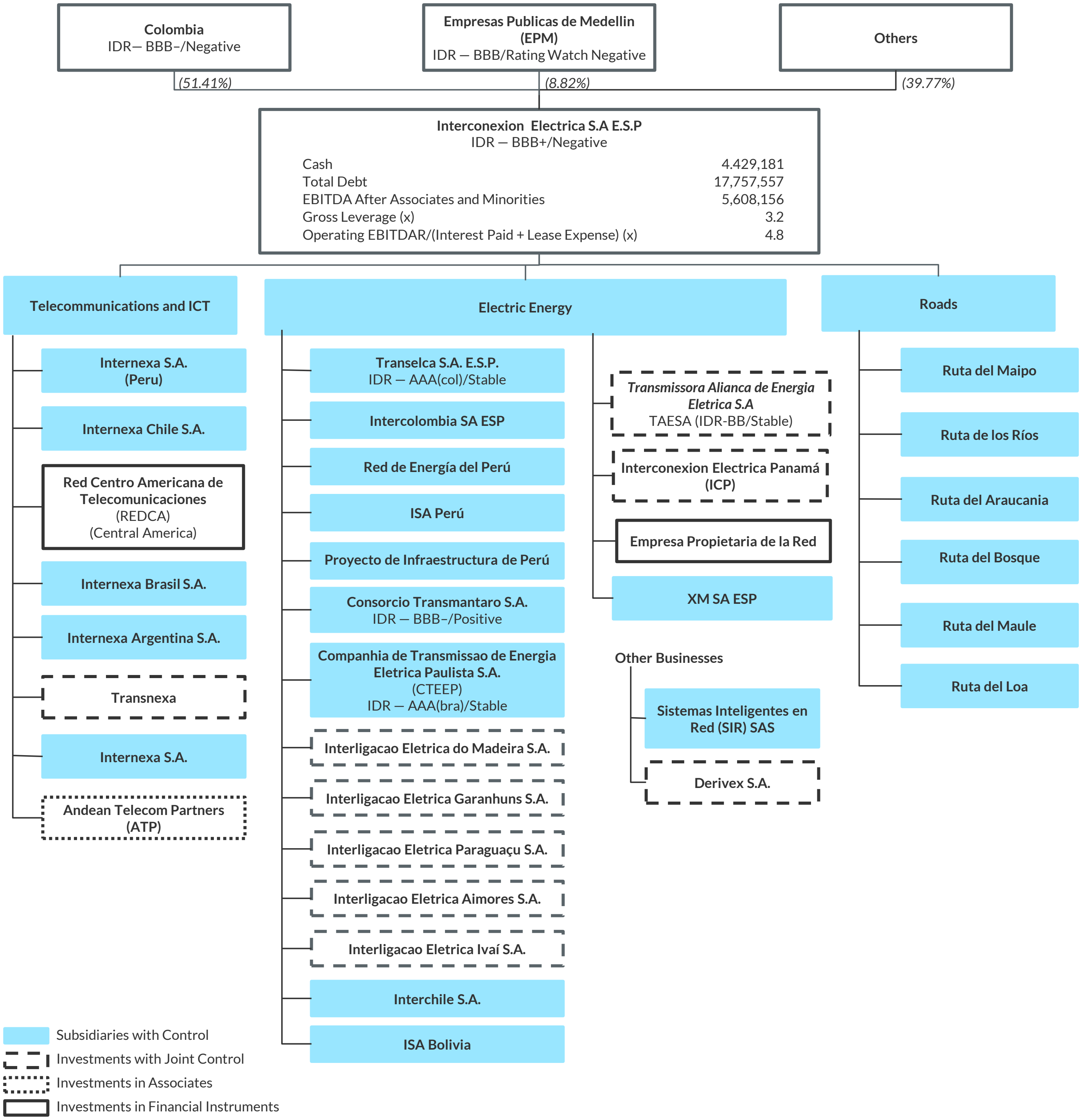
CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Organizational Structure — Interconexion Electrica S.A. E.S.P.
(COP Mil., as of Dec. 31, 2019)



IDR — Issuer Default Rating.
Source: Fitch Ratings, Fitch Solutions, Interconexion Electrica S.A. E.S.P.

Peer Financial Summary

Company	Issuer Default Rating	Financial Statement Date	Revenue (USD Mil.)	Operating EBITDAR Margin (%)	FCF (USD Mil.)	Operating EBITDAR/ Interest Paid + Rents (x)	Total Debt with Equity Credit/ Operating EBITDA (x)
Interconexion Electrica S.A. E.S.P.	BBB+						
	BBB+	2019	2,481	67.8	58	4.8	3.2
	BBB+	2018	2,427	70.6	(506)	5.3	3.3
	BBB+	2017	1,930	64.7	(230)	5.4	4.3
Transelec S.A.	BBB						
	BBB	2019	540	86.3	21	4.6	4.8
	BBB	2018	514	84.9	73	4.2	5.3
	BBB	2017	431	84.1	(31)	3.4	6.0
Alupar Investimento S.A.	BBB–						
	BB	2019	304,395	56.9	(280,955)	1.7	12.7
	BB	2018	409,565	73.5	(107,644)	3.4	6.6
	AA+(bra)	2017	468,976	76.6	22,740	3.3	4.2
Transmissora Alianca de Energia Eletrica S.A.	BBB–						
	BB	2019	361,909	76.8	6,552	5.9	3.9
	BB	2018	378,669	82.1	11,926	8.7	2.4
	BB+	2017	309,368	77.1	188,771	3.9	3.2
Consorcio Transmantaro S.A. (CTM)	BBB–						
	BBB–	2019	235	77.5	6	4.8	4.6
	BBB–	2018	234	72.6	(31)	4.5	4.8
	BBB–	2017	285	44.7	(32)	4.6	6.2
Grupo Energia Bogota S.A. E.S.P. (GEB)	BBB						
	BBB	2019	1,490	39.6	(126)	4.8	3.9
	BBB	2018	1,354	39.5	(227)	5.3	4.0
	BBB	2017	1,125	43.9	(18)	3.9	4.0
Empresas Publicas de Medellin E.S.P. (EPM)	BBB						
	BBB	2019	5,596	33.5	(460)	3.8	3.4
	BBB	2018	5,519	29.7	(698)	3.6	4.5
	BBB+	2017	5,062	31.0	(832)	4.2	3.7

Source: Fitch Ratings, Fitch Solutions.

Reconciliation of Key Financial Metrics

(COP Mil., as reported)	Dec. 31, 2019
Income Statement Summary	
Operating EBITDA	5,519,284
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	88,872
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**5,608,156**
+ Operating Lease Expense Treated as Capitalised (h)	**0**
= Operating EBITDAR after Associates and Minorities (j)	**5,608,156**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**17,757,557**
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt (p)	0
= Total Adjusted Debt with Equity Credit (a)	**17,757,557**
Readily Available Cash [Fitch-Defined]	2,487,201
+ Readily Available Marketable Securities [Fitch-Defined]	2,384,381
= Readily Available Cash & Equivalents (o)	**4,871,582**
Total Adjusted Net Debt (b)	**12,885,975**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	52,603
+ Interest (Paid) (d)	**(1,155,037)**
= Net Finance Charge (e)	**(1,102,434)**
Funds from Operations [FFO] (c)	**3,673,910**
+ Change in Working Capital [Fitch-Defined]	(83,623)
= Cash Flow from Operations [CFO] (n)	**3,590,287**
Capital Expenditures (m)	**(2,229,569)**
Multiple applied to Capitalised Leases	5.0
Gross Leverage	
Total Adjusted Debt/Op. EBITDAR[a] [x] (a/j)	**3.2**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**3.7**
Total Debt with Equity Credit/Op. EBITDA[a] [x] (l/k)	**3.2**
CFO-Capex/Total Debt with Equity Credit (%)	**7.7**
Net Leverage	
Total Adjusted Net Debt/Op. EBITDAR[a] [x] (b/j)	**2.3**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**2.7**
Total Net Debt/(CFO - Capex) [x] ((l-o)/(n+m))	**9.5**
CFO-Capex/Total Net Debt with Equity Credit (%)	**10.6**
Coverage	
Op. EBITDAR/(Interest Paid + Lease Expense)[a] [x] (j/-d+h)	**4.9**
Op. EBITDA/Interest Paid[a] [x] (k/(-d))	**4.9**
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**4.1**
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**4.1**

[a]EBITDA/R after dividends to associates and minorities.
Source: Fitch Ratings, Fitch Solutions, Interconexion Electrica S.A. E.S.P.

Fitch Financial Adjustments – Summary Financials

(COP Mil.)	Reported Values 31 Dec 19	Sum of Fitch Adjustments	- CORP - Group Method,	Adjusted Values
Income Statement Summary				
Revenue	8,139,008	0	—	8,139,008
Operating EBITDAR	5,467,101	52,183	52,183	5,519,284
Operating EBITDAR after Associates and Minorities	5,467,101	141,055	141,055	5,608,156
Operating Lease Expense	20,044	0	—	20,044
Operating EBITDA	5,467,101	52,183	52,183	5,519,284
Operating EBITDA after Associates and Minorities	5,467,101	141,055	141,055	5,608,156
Operating EBIT	4,749,923	(289,622)	(289,622)	4,460,301
Debt & Cash Summary				
Total Debt With Equity Credit	17,757,557	0	—	17,757,557
Total Adjusted Debt With Equity Credit	17,857,777	0	—	17,857,777
Lease-Equivalent Debt	0	0	—	0
Other Off-Balance Sheet Debt	0	0	—	0
Readily Available Cash & Equivalents	4,871,582	0	—	4,871,582
Not Readily Available Cash & Equivalents	0	0	—	0
Cash-Flow Summary				
Preferred Dividends (Paid)	0	0	—	0
Interest Received	25,503	27,100	27,100	52,603
Interest (Paid)	(208,505)	(946,532)	(946,532)	(1,155,037)
Funds from Operations [FFO]	4,505,576	(831,666)	(831,666)	3,673,910
Change in Working Capital [Fitch-Defined]	(83,623)	0	—	(83,623)
Cash Flow from Operations [CFO]	4,421,953	(831,666)	(831,666)	3,590,287
Non-Operating/Non-Recurring Cash Flow	0	0	—	0
Capital (Expenditures)	(2,229,569)	0	—	(2,229,569)
Common Dividends (Paid)	(1,169,797)	0	—	(1,169,797)
Free Cash Flow [FCF]	1,022,587	(831,666)	(831,666)	190,921
Gross Leverage (x)				
Total Adjusted Debt/Op. EBITDAR[a]	3.2	—	—	3.2
FFO Adjusted Leverage	3.8	—	—	3.7
FFO Leverage	3.8	—	—	3.7
Total Debt with Equity Credit/Op. EBITDA[a]	3.2	—	—	3.2
CFO-Capex/Total Debt with Equity Credit (%)	12.3	—	—	7.7
Net Leverage (x)				
Total Adjusted Net Debt/Op. EBITDAR[a]	2.4	—	—	2.3
FFO Adjusted Net Leverage	2.7	—	—	2.7
FFO Net Leverage	2.7	—	—	2.7
Total Net Debt/(CFO - Capex)	5.9	—	—	9.5
CFO-Capex/Total Net Debt with Equity Credit (%)	17.0	—	—	10.6
Coverage (x)				
Op. EBITDAR/(Interest Paid + Lease Expense)[a]	26.2	—		4.9
Op. EBITDA/Interest Paid[a]	26.2	—		4.9
FFO Fixed Charge Coverage	22.5	—		4.1
FFO Interest Coverage	22.5	—		4.1

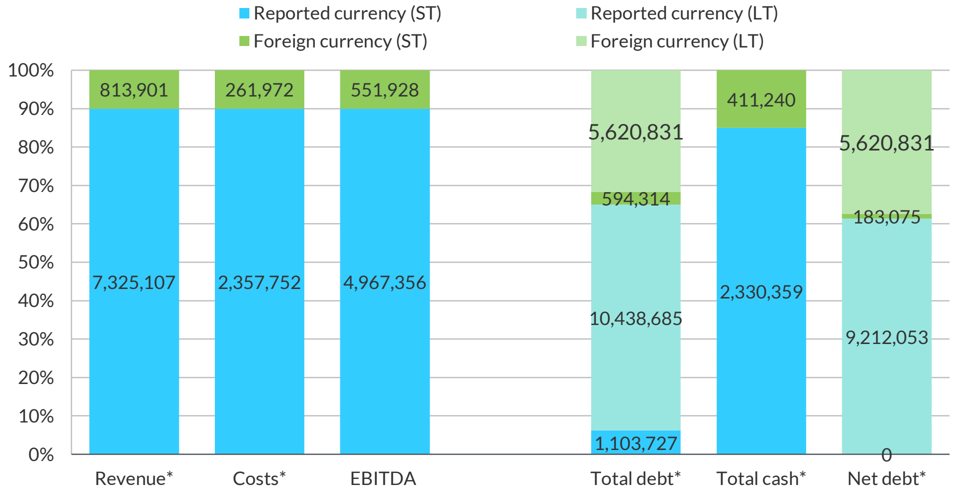
[a]EBITDA/R after dividends to associates and minorities.
Source: Fitch Ratings, Fitch Solutions, Interconexion Electrica S.A. E.S.P.

FX Screener

ISA has some exposure to FX risk. ISA's financial debt on a consolidated basis consists of Colombian pesos and other Latin American currencies, with a 65.1% stake, while 34.9% is denominated in U.S. dollars. The company has no material financial hedge, as it tries to match cash flows with debt obligations in each currency. The FX exposure is mitigated by revenues denominated in U.S. dollars, mainly from Peru and some revenues in Colombia that come from the Colombian Mining and Energy Planning Unit auction process.

Fitch FX Screener

(Interconexion Electrica S.A. E.S.P. — BBB+/Negative, LTM Dec-19, COPm)



* Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information
Source: Fitch Ratings

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.