Companhia de Transmissão de Energia Elétrica Paulista S.A. and ISA Capital do Brasil S.A.

Full Rating Report

Ratings

ISA Capital

Foreign Currency

Long-Term IDR	BB+
Senior Unsecured Notes	BBB–
Local Currency	
Long-Term IDR	BB+
National Long-Term Rating	AA–(bra)
CTEEP	
Local Currency	
National Long-Term Rating	AA+(bra)
Debentures – 1st Issuance	AA+(bra)

IDR – Issuer Default Rating.

Rating Outlooks

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

Financial Data

Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP)

(BRL Mil.)	LTM 9/30/15	12/31/14
Revenue	1,295	1,103
EBITDA	471	366
EBITDA Margin (%)	36	33
Funds from Operations	379	315
FCF	(25)	(19)
Cash and Mkt. Securities	542	484
Total Adj. Debt	2,704	2,840
Total Adj. Debt/ EBITDA (x)	5.7	7.8
FFO-Adjusted Leverage (x)	6.0	7.3
EBITDA/Gross Interest Expense (x)	3.3	2.6

Related Research

Fitch Affirms ISA Capital's IDRs at 'BB+'/'AA–(bra)'; CTEEP's National Scale Rating at 'AA+(bra)' (August 2015)

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Key Rating Drivers

Strong Credit Quality: Companhia de Transmissão de Energia Elétrica Paulista S.A.'s (CTEEP) ratings reflect its strong credit quality attributable to the low business risk of the power transmission sector in Brazil, with predictable operating cash flow. CTEEP is efficiently managing its sound financial profile after the strong reduction of revenues as a result of the company's acceptance to early renew its main concession at the beginning of 2013.

ISA Capital's Ratings Link to CTEEP: ISA Capital do Brasil S.A.'s (ISA Capital) ratings reflect the credit profile of CTEEP, its sole operating asset and dividend source. ISA Capital's obligations are structurally subordinated to CTEEP's, as the holding only owns 37.2% of CTEEP's total capital and does not receive the full amount of dividends paid by the transmission company. Fitch Ratings believes ISA Capital's financial flexibility may benefit from the market value of its CTEEP shares in case dividends received are not sufficient to meet its obligations.

CTEEP's Robust Credit Metrics: Fitch expects CTEEP's financial leverage and liquidity to improve as a result of growing cash generation from a complementary compensation related to the acceptance to early renew its main concession and reinforcement investments-related revenue. This additional compensation, a minimum of BRL3.9 billion as of 2012 for the investments made before 2000, is expected to be paid over the remaining life of the new concession.

Negative Free Cash Flow: Fitch expects CTEEP's FCF to turn negative after 2016 due to high capex needs and annual dividends of BRL200 million–BRL230 million, even without additional transmission assets being added to its portfolio. For the LTM ended Sept. 30, 2015 cash flow from operations (CFFO) of BRL285 million was not sufficient to cover capex of BRL14 million and dividends of BRL306 million, leading to a negative FCF of BRL35 million.

Low Business Risk: Fitch considers the transmission segment as the lowest risk at the Brazilian power sector. CTEEP's credit profile benefits from its exclusive right to provide electricity transmission services through its multiple concessions. CTEEP currently participates in nine concessions in operation with an equivalent participation of 16,440km. This scenario reduces the company's exposure to the risks associated with the construction phase. The ratings factored in a moderate regulatory risk for the Brazilian power sector.

Rating Sensitivities

Negative Rating Action: Future developments that may individually or collectively lead to a negative rating action at CTEEP include net leverage consistently above 3.5x and CFFO plus cash and cash equivalents/short-term debt ratio below 1.5x. In the case of ISA Capital, a strong devaluation of CTEEP's value and a difficult scenario to negotiate a new schedule to redeem its preferred shares can pressure the ratings.

Positive Rating Action: A positive rating action for CTEEP is unlikely until corporate guarantees to noncontrolling subsidiaries' debt are materially released.

Financial Overview

Liquidity and Debt Structure

CTEEP's financial profile benefits from its robust liquidity position. As of Sept. 30, 2015 cash and cash equivalents of BRL542 million represented 20% of total adjusted debt of BRL2.7 billion under Fitch methodology and were sufficient to cover short-term debt of BRL126 million by 4.3x. Liquidity should improve based on the pending BRL296 million to be received until year-end 2015 from the initial compensation of BRL2.9 billion and the potential BRL3.9 billion from the complementary compensation to be approved by the regulator. CTEEP also presented solid short-term debt coverage, considering the CFFO plus cash and cash equivalents/short-term debt was at 6.7x.

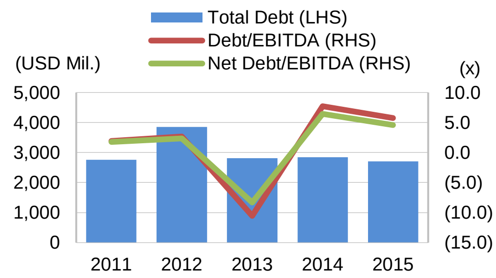
As of Sept. 30, 2015 CTEEP's total adjusted debt was BRL2.7 billion, including BRL1.5 billion of guarantees to noncontrolling subsidiaries, leading to total adjusted debt/EBITDA ratio of 5.7x, or 4.6x considering the net-adjusted debt. Fitch expects corporate guarantees to noncontrolling subsidiaries to be materially released after 2016, when net leverage should remain below 2.5x in the next three years. Total adjusted debt was composed mainly of debentures (BRL586 million) and Banco Nacional de Desenvolvimento Economico e Social (BNDES) financing (BRL493 million).

Debt Maturities and Liquidity

(As of Sept. 30, 2015)	**(BRL 000)**
Current Maturity	126,411
Two Year	199,871
Three Year	237,117
Four Year	216,679
Five Year	50,456
Beyond Five Years	265,568
CFFO	294,990
Cash	542,478
Undrawn Committed Facilities	—

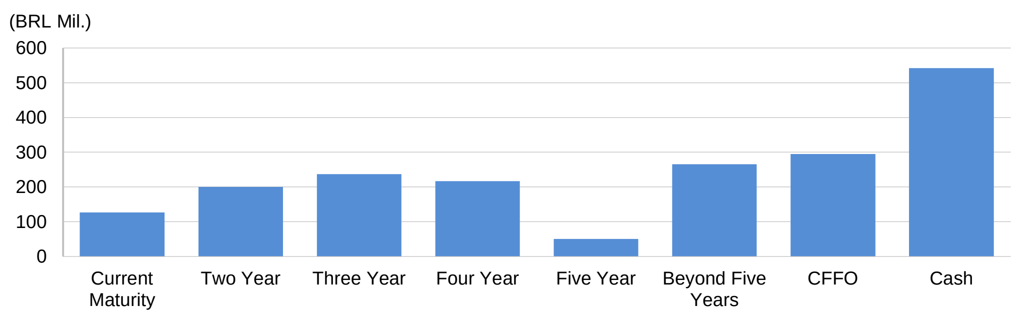
Source: Company reports.

Total Adjusted Debt and Leverage Ratios



Source: CTEEP, Fitch.

Debt Maturity Schedule



Source: CTEEP, Fitch.

Related Criteria

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Fitch expects CTEEP's financial leverage and liquidity to continuously improve as a result of growing cash generation from a complementary compensation related to the acceptance to early renew its main concession and reinforcement investments-related revenue. This additional compensation for the investments made before 2000 is expected to be paid over the remaining life of the new concession. The Brazilian regulatory agency for the power sector

(ANEEL) has already signalized a minimum of BRL3.9 billion (as of 2012) as compensation. This amount can reach up to BRL5.2 billion (as of 2012), as the company has asked ANEEL to review its calculations.

ISA Capital's credit quality reflects the company's structural subordination to CTEEP's obligations. ISA Capital owns only 37.2% of CTEEP's total capital and receives this proportional stake on the dividends paid by the transmission company. ISA Capital is expected to use the proceeds it receives from CTEEP, together with its cash on hand (BRL36 million as of September 2015) to partially pay its debt. At third-quarter 2015 ISA Capital's debt was BRL945 million, mostly composed of the remaining portion of its 2017 bonds (BRL128 million) not tendered during 2010 and the obligations to redeem its preferred shares of BRL817 million.

Fitch believes ISA Capital will have to raise additional cash to meet debt obligations, as dividends flow from CTEEP should not be sufficient. The concession renewal process has somewhat affected CTEEP's ability to upstream cash to its controlling shareholder through dividend payments. Annual dividends from the transmission company are expected to range from BRL200 million to BRL230 million. To adjust its preferred share buying program to this new reality in 2014, ISA Capital renegotiated with the preferring shareholders the program repurchase schedule. The program of acquiring the BRL891 million of preferred shares has been extended to 2020 and the balance is BRL50 million in 2015 and BRL160 million per year from 2016 to 2020.

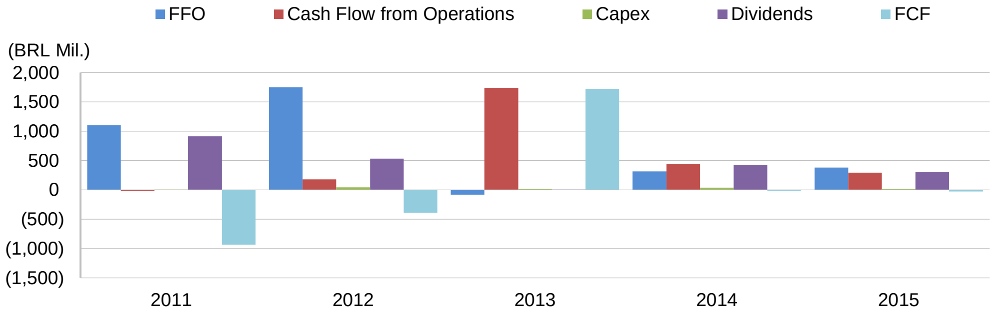
The one-notch rating uplift for ISA Capital outstanding bonds reflects its enhanced recovery prospects due to the refinancing of the majority of its debt with subordinated, debt-like preferred equity. The 2017 bonds are currently overcollateralized. The USD31.6 million (BRL87.1 million) of outstanding bonds are secured by 66% of ISA Capital's shares on CTEEP, a stake which was valued at approximately BRL1.8 billion based on CTEEP's market cap value of BRL7.2 billion at year-end 2015.

Cash Flow Analysis

CTEEP's cash flow generation is very predictable, exhibiting the low business risk profile of a power transmission company. CTEEP's revenues are exempt from volumetric risk, as its maximum permitted annual revenue (PAR) is based on the power transmission assets available to users, instead of the power transmitted. After a significant decrease in cash flow generation due to the company acceptance of the government proposal for early renewal of its main concession, cash flow has been benefited by additional revenues from reinforcement investments. For the LTM ended Sept. 30, 2015 net revenues reached BRL1.3 billion, with EBITDA of BRL471 million, according to Fitch criteria. Net revenues and EBITDA were BRL1.1 billion and BRL366 million, respectively, in 2014.

Fitch expects CTEEP's FCF to turn negative after 2016 due to high capex needs and annual dividends of BRL200 million–BRL230 million, even without additional transmission assets being added to its portfolio. For the LTM ended Sept. 30, 2015 CFFO of BRL285 million was not sufficient to cover capex of BRL14 million and dividends of BRL306 million leading to a negative FCF of BRL35 million. As of September 2015 the company had a reinforcement capex forecast of BRL1.2 billion until 2017, plus the capex realized since 2013, which is expected to generate an increase of BRL1 billion in revenues until 2018. These investments as well as the revenues (PAR) associated to them shall be previously approved by ANEEL.

Cash Flow Performance



Source: Company reports.

Peer Group

Issuer	Country
TAESA	Brazil
Alupar	Brazil
Transelec.	Colombia

Issuer Rating History

Date	National Scale Rating	Outlook/ Watch
CTEEP		
Aug. 25, 2015	AA+(bra)	Stable
Aug. 27, 2014	AA+(bra)	Stable
Aug. 27, 2013	AA+(bra)	Negative
Dec. 7, 2012	AA+(bra)	Negative
June 25, 2012	AA+(bra)	Stable
July 5, 2011	AA+(bra)	Stable
July 2, 2010	AA+(bra)	Stable
April 8, 2009	AA(bra)	Positive
Date	**LC/FC IDR**	**Outlook/ Watch**
ISA Capital		
Oct. 5, 2015	BB+	Stable
Aug. 25, 2015	BB+	Stable
Aug. 27, 2014	BB+	Stable
Aug. 27, 2013	BB+	Stable
Dec. 7, 2012	BB+	Stable
June 25, 2012	BB+	Stable
July 5, 2011	BB+	Stable
July 2, 2010	BB+	Stable
June 30, 2009	BB	Stable
April 3, 2008	BB	Stable
Jan. 12, 2007	BB	Stable

LT IDR – Long-Term Issuer Default Rating. FC – Foreign currency.
Source: Fitch.

Peer and Sector Analysis

Peer Group Analysis

Local Currency	CTEEP	Taesa	Alupar	Transelec
LTM as of	9/30/15	9/30/15	9/30/15	9/30/15
National Long-Term Rating	AA+(bra)	AAA(bra)	AA+(bra)	AA–(cl)
Outlook	Stable	Stable	Stable	Stable
Financial Statistics				
Revenue	1,295	1,429	1,544	271,311
YoY Revenue Growth (%)	19	(2)	10	11
EBITDA	471	1,417	1,130	229,608
EBITDA Margin (%)	36	99	73	85
FCF	(25)	(131)	(425)	(1,438)
Total Adjusted Debt	2,704	3,859	4,583	1,337,928
Cash and Cash Equivalents	542	495	679	32,321
Funds Flow from Operations	379	1,009	625	184,340
Capex	14	9	563	102,718
Credit Metrics (x)				
EBITDA/Gross Interest Coverage	3.3	4.7	3.0	3.8
(FCF + Cash)/Debt Service Coverage	2.5	0.6	0.5	0.4
Adjusted Debt/EBITDA	5.7	2.7	4.1	5.8
FFO Interest Coverage	3.2	4.2	2.5	3.9

IDR – Issuer Default Rating. YoY – Year over year.
Source: Fitch.

Company Profile

ISA Capital is a holding company created to participate in the privatization of CTEEP. It is controlled by Interconexion Electrica S.A. E.S.P. (BBB/Stable), which is owned by the government of Colombia. CTEEP's common shares give ISA Capital control of CTEEP (89.5%) and represent 37.19% of CTEEP's total equity. Centrais Elétricas Brasileiras S.A. (BB/Stable) holds 35.37% of CTEEP's total capital and the balance, 27.44%, is free float, traded on the Brazilian stock exchange (BOVESPA).

Fitch considers the transmission segment as the lowest risk at the Brazilian power sector. CTEEP's credit profile benefits from its exclusive right to provide electricity transmission services through its multiple concessions. CTEEP currently participates in nine concessions in operation with an equivalent participation of 16,440km. This scenario eliminates the company's exposure to the risks associated with the construction phase.

Assets

(As of December 2015)

Company/Subsidiary	CTEEP's Stake (%)	Extension (km)	Tension (kV)	PAR 15–16 (BRL Mil.)	Adjustment Index	Start of Operation	End of Concession	PAR Reduction	PAR Review Review
CTEEP	—	14,119	440	836.6	IPCA	2001	December 2042	No	5th/10th/15th Year
Interconnection Elétrica Minas Gerais — IEMG	100	173	500	14.9	IPCA	December 2008	April 2037	No	5th/10th/15th Year
Interconnection Elétrica Pinheiros	100	1	345	46.1	IPCA	2010–2013	October 2038	No/Yes[b]	5th/10th/15th Year
Interconnection Elétrica Serra do Japi	100	137	230	52.6	IPCA/IGPM	March 2012	November 2039	No	5th/10th/15th Year
Evrecy	100	155	230	13.1	IGPM	November 2008	July 2025	No	Every 4 Years
Interconnection Elétrica Norte e Nordeste — IENNE	25	710	500	36.5	IPCA	January 2011	March 2038	No	5th/10th/15th Year
Interconnection Elétrica Sul — IESUL	50	167	230	15.3	IPCA	2010–2015	October 2038	No	5th/10th/15th Year
Interconnection Elétrica Madeira	51	2,375	600	416.2	IPCA	2013–2014	February 2039	No	5th/10th/15th Year
Interconnection Elétrica Garanhuns[a]	51	751	500	88.3	IPCA	October 2015	December 2041	No	5th/10th/15th Year
Total		**18,588**	—	**1,520**	—	—	—	—	—
CTEEP		16,440	—	1,237	—	—	—	—	—

[a]Under construction. [b]Contract 143/2001.
Source: CTEEP, Fitch.

The transmission business in Brazil is characterized by predictable revenues, high EBITDA margins and decreasing financial leverage after construction phase. The Brazilian transmission concessionaires are remunerated based on the PAR, as determined by ANEEL. The PAR is not exposed to volumetric risk and compensates the concessionaires for making their electric power transmission facilities available for users of the national grid.

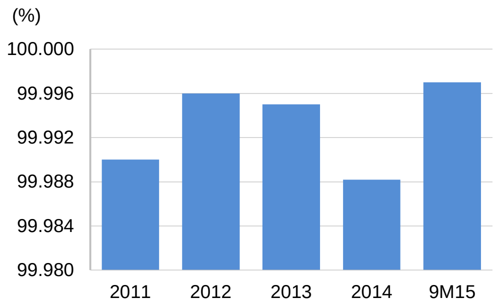
CTEEP’s subsidiaries are subject to annual readjustments to compensate the volatility of inflation rates, either by the General Market Price Index or by the National Ample Consumer Price Index, and other investments previously approved by ANEEL. Other extraordinary readjustments can occur in case of changes in regulatory or tax legislation and/or investments that have not been previously approved by ANEEL.

The PAR for concessions acquired after September 2006 are subject to a tariff review every five years from the first month of July subsequent to the signature of the concession contract, when the variation of third-party capital cost will be revised. This exposure, which is not considered as relevant as it is for power distribution companies, should increase as the group applies for the concession of new transmission projects. In the case of the PAR relative to concessions acquired previous to September 2006, the review mechanism is a flat reduction of 50% of the PAR on the 16th year of concession.

CTEEPs’ power transmission companies benefit from a diversified client base and a guaranteed payment structure. Transmission line users are, in general, generation and distribution companies, as well as free consumers. Each transmission company invoices different transmission system users on a monthly basis and none of these represent more than 10% of CTEEP’s revenue. The monthly payments are made in three installments and are guaranteed by a contract for the constitution of guarantee, which grants the electric system national operator (ONS) access to funds available in scroll banking accounts, in case the consumer fails to pay any of the installments. The delinquency is not significant, due to this mechanism and intervention of ANEEL and ONS to ensure the client’s effective payment.

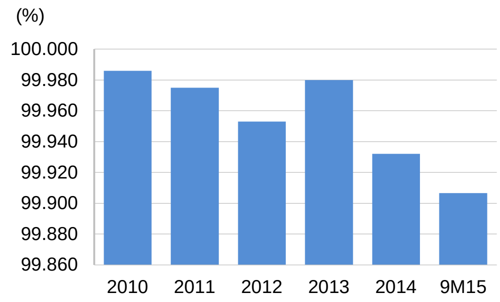
CTEEP has a stable and efficient record on its main operational indicator, i.e. the availability of its transmission assets (lines, reactors and transformers), which avoid significant discounts on its PARs.

Transmission Lines



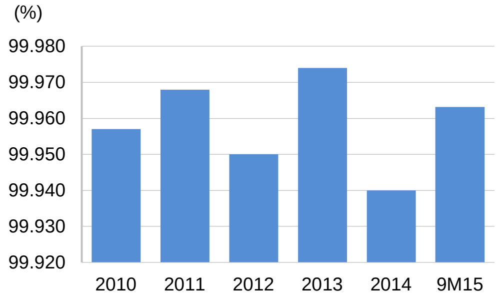
Source: CTEEP, Fitch.

Reactors



Source: CTEEP, Fitch.

Transformers



Source: CTEEP, Fitch.

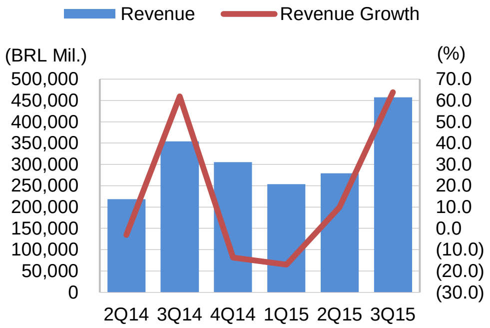
Strategy

ISA Capital strategy was initially to serve as a platform for ISA growth in other lines of business that were in line with the ultimate holding company growth strategy. After the concession renewal process of CTEEP, ISA Capital's investment capacity was significantly diminished and the company has frozen its investment initiatives in Brazil until the definition of the amount and terms of complimentary compensation related to the acceptance to early renew its main concession are concluded.

CTEEP's strategy is to reduce operational costs to maximize the company's profitability and not participate in new investments as it awaits the regulatory agency's decision on the complimentary compensation payment.

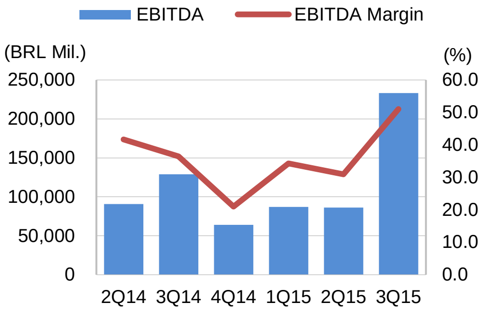
Business Trends

Revenue Trends



Source: CTEEP, Fitch

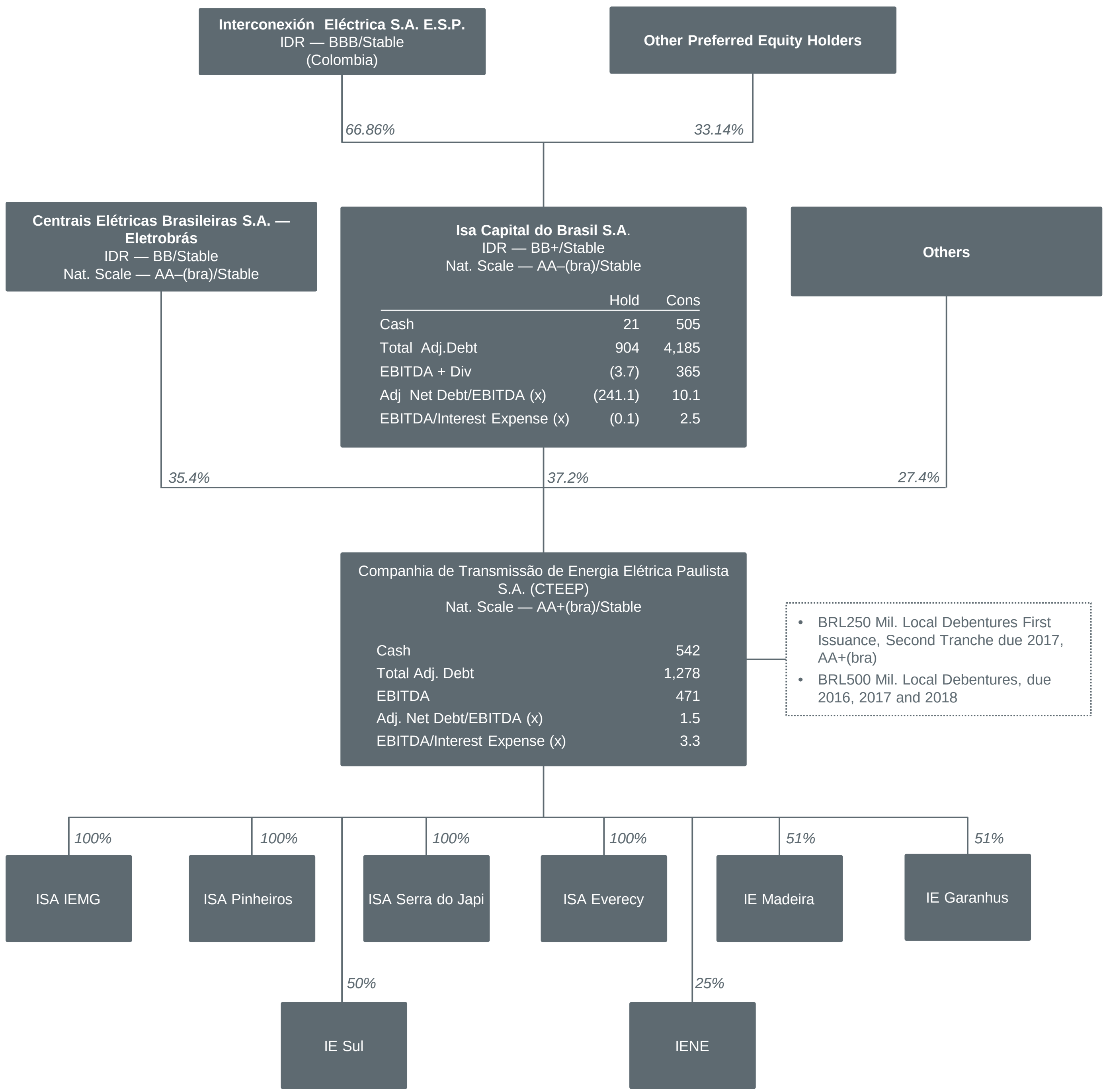
EBITDA Trends



Source: CTEEP, Fitch.

Organizational Structure

Organizational Structure — ISA Capital do Brasil S.A. (ISA Capital) and Companhia de Transmissão de Energia Elétrica Paulista (CTEEP)
(BRL Mil., CTEEP as of Sept. 30, 2015 and ISA Capital as of Dec. 31, 2014)



IDR – Issuer Default Rating.
Source: Fitch, company data.

Key Fitch Forecasts Assumptions Include:

- Complimentary compensation payment after 2016 through tariff increase during remaining concession period.
- Payout dividend ratio of around 60% in 2015 and an average of 65% between 2016 and 2018.
- Annual average capex of BRL473 million between 2015 and 2018.
- Corporate guarantees to noncontrolling subsidiaries fully released until the end of 2016.

Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP)

	Historical		Fitch Forecast		
(BRL 000)	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Summary Income Statement					
Revenue	981,168	1,102,788	1,204,723	1,609,820	2,097,800
Revenue Growth (%)	(65.2)	12.4	9.2	33.6	30.3
Operating EBITDA	(266,004)	366,271	512,007	643,123	1,087,709
Operating EBITDA Margin (%)	(27.1)	33.2	42.5	40.0	51.9
Operating EBITDAR	(266,004	366,271	512,007	643,123	1,087,709
Operating EBITDAR Margin (%)	(27.1)	33.2	42.5	40.0	51.9
Operating EBIT	(273,343	357,411	467,962	534,125	945,635
Operating EBIT Margin (%)	(27.9)	32.4	38.8	33.2	45.1
Gross Interest Expense	(153,344)	(140,519)	(134,581)	(144,725)	(181,139)
Pretax Income	(137,268)	460,207	391,497	451,225	788,407
Summary Balance Sheet					
Readily Available Cash	600,026	484,297	515,208	199,255	199,933
Total Debt with Equity Credit	1,390,219	1,338,886	1,108,040	1,473,325	1,695,475
Total Adjusted Debt with Equity Credit	2,813,373	2,839,540	2,591,726	1,473,325	1,695,475
Net Debt	790,193	854,589	592,832	1,274,070	1,495,542
Summary Cash Flow Statement					
Operating EBITDA	(266,004)	366,271	512,007	643,123	1,087,709
Cash Interest	(153,344)	(140,519)	(134,581)	(144,725)	(181,139)
Implied Interest Cost (%)	5.8	10.3	11.0	11.2	11.4
Cash Tax	—	—	(133,109)	(153,416)	(268,058)
Associate Dividends less Distributions to NCI			39,000	57,200	124,300
Other Items Before FFO	339,709	89,418	58,116	61,825	23,911
Funds Flow from Operations	(79,639)	315,170	341,433	464,007	786,723
FFO Margin (%)	(8.1)	28.6	28.3	28.8	37.5
Change in Working Capital	1,816,220	126,066	(70,666)	(245,894)	(326,845)
Cash Flow from Operations (Fitch Defined)	1,736,581	441,236	270,767	218,112	459,878
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capex	(15,619)	(35,909)	—	—	—
Capital Intensity (Capex/Revenue) (%)	1.6	3.3	—	—	—
Common Dividends	(34)	(423,858)	—	—	—
Net Acquisitions and Divestitures	—	—	—	—	—
Capex, Dividends, Acquisitions and Other Items before FCF	(15,653)	(459,767)	(9,010)	(899,350)	(681,350)
FCF after Acquisitions and Divestitures	1,720,928	(18,531)	261,757	(681,238)	(221,472)
FCF Margin (After Net Acquisitions) Margin (%)	175.4	(1.7)	21.7	(42.3)	(10.6)
Other Investing and Financing Cash Flow Items	(187,914)	(102,133)	0	0	0
Net Debt Proceeds	(1,242,621)	(122,805)	(230,846)	365,285	222,150
Net Equity Proceeds		127,740	0	0	0
Total Change in Cash	290,393	(115,729)	30,911	(315,953)	678
Coverage Ratios (x)					
FFO Interest Coverage	(0.2)	2.8	3.1	3.8	5.2
FFO Fixed Charge Coverage	(0.2)	2.8	3.1	3.8	5.2
Operating EBITDAR/Gross Interest Expense + Rents	(1.7)	2.6	3.8	4.4	6.0
Operating EBITDA/Gross Interest Expense	(1.7)	2.6	3.8	4.4	6.0
Leverage Ratios (x)					
Total Adjusted Debt/Operating EBITDAR	(10.6)	7.8	5.1	2.3	1.6
Total Adjusted Net Debt/Operating EBITDAR	(8.3)	6.4	4.1	2.0	1.4
Total Debt with Equity Credit/Operating EBITDA	(5.2)	3.7	2.2	2.3	1.6
FFO-Adjusted Leverage	(119.9)	7.3	6.2	2.7	1.8
FFO-Adjusted Net Leverage	30.0	5.0	5.0	2.3	1.6

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