

RESEARCH

Research Update:

ISA Capital do Brasil Rating Raised To 'BB+', \$554M Nts Rating Raised To 'BB'; Outlook Stable

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Rationale

On March 7, 2007, Standard & Poor's Ratings Services raised its corporate credit rating on ISA Capital do Brasil S.A. (ISA Capital) to 'BB+' from 'BB'. In addition, Standard & Poor's raised the rating on the company's US\$554 million senior notes to 'BB' from 'BB-'. The outlook is stable.

The rating action follows the rating upgrade on its parent, Interconexion Electrica S.A. E.S.P. (ISA) to 'BB+' from 'BB' as a result of the rating upgrades on the Republic of Colombia's long-term local and foreign currency. Standard & Poor's believes that ISA Capital will receive implicit support from ISA, its majority owner, mainly because of the company's important role in Brazil's electricity sector.

ISA Capital is a special-purpose financing entity that issues the bonds and on-lends the funds to ISA, which used debt to finance the acquisition of Companhia de Transmissao de Energia Elétrica Paulista (CTEEP; not rated) in 2006 and 2007.

The notes were structured with a bullet maturity, and contained a security package consisting of current and future CTEEP shares and a six-month debt-service reserve account.

The Brazilian operation (CTEEP) represents ISA's largest business, followed by its operations in Colombia and to a much lesser extent, the Peruvian and Bolivian operations. In Standard & Poor's opinion, the new business risk profile will mainly reflect ISA's strong competitive position in Brazil and Colombia, with very low exposure to competitive pressures given the nature of the electric transmission business.

Liquidity

ISA Capital's liquidity is adequate for the rating category, and we expect that liquidity will remain sufficient to meet the company's financial obligations. Liquidity is also supported by a six-month reserve fund. The company faces relatively high refinancing risk on the maturity years, when the ISA Capital notes are due. ISA Capital is expected to comfortably cover its debt-service obligations, considering its liquidity position.

Outlook

The stable outlook reflects the implicit support from ISA. However, the rating is constrained by our lower perception of country risk associated with the company's economic and working environment. A positive rating action for ISA does not necessarily indicate a positive rating action for ISA Capital. Conversely, a deterioration of ISA Capital's financial risk profile could result in a negative rating action.

Ratings List

Ratings Raised

	To:	From:
ISA Capital do Brasil S.A. Corp. credit rating	BB+/Stable/--	BB/Positive/--
US\$554 million senior notes	BB	BB-

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