

FITCH AFFIRMS ISA CAPITAL DO BRASIL'S 'BB' RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-30 June 2009: Fitch Ratings has affirmed ISA Capital do Brasil S.A.'s (ISA Capital) foreign and local currency Issuer Default Ratings (IDRs) at 'BB'. The rating action applies to US\$554 million in senior secured notes outstanding. The Rating Outlook is Stable.

ISA Capital's ratings are based on the strong credit quality of Companhia de Transmissao de Energia Eletrica Paulista (CTEEP), its sole revenue source and only operating asset. CTEEP's strong credit quality is attributable to the company's monopoly position, its stable and predictable operating cash flow and its financially sound credit profile. The ratings also reflect the noteholders' structural subordination to CTEEP's obligations, as well as the company's concession renewal and refinancing risks.

Although CTEEP's credit quality is strong, ISA Capital's credit quality is somewhat weaker given that ISA Capital only owns 37.5% of CTEEP total capital and does not receive the full benefits of operating cash flow. Cash flow distributions (dividends) from CTEEP to ISA Capital are stable and somewhat predictable. ISA Capital's FFO Interest Coverage ratio of approximately 3.2 times (x) as of year end 2008 is considered adequate for the rating category. The company received dividends of approximately BRL252 million and had interest and hedge expenses of BRL92 and BRL130 million, respectively, during 2008. During 2008, ISA Capital's liquidity position was weakened by a BRL217 million payment to renegotiate its hedge instruments, although at a higher cost, with a lower exchange rate.

Going forward, ISA Capital distributions received from CTEEP are expected to range between BRL250 and BRL300 million per year and the company will increase its cash reserves over the next two and half years in order to cover its 2012 amortization. Should ISA Capital allow CTEEP to reduce its dividend payments to redirect funds for its aggressive expansion program, the company's credit quality could be seriously compromised.

CTEEP's monopoly position stems from its exclusive right to provide electricity transmission services through its three concessions expiring in 2015, 2031 and 2038, respectively. Furthermore, two CTEEP's concession are located in the state of Sao Paulo, which accounts for one-third of Brazil's overall GDP, making it one of the largest electricity consumers in the country, and the third one, which will still be constructed, is in the Northeast of Brazil. CTEEP's strong market position should further benefit the company when it participates in future bids for new transmission lines in Brazil. Whether or not the regulator renews the company's concession in 2015 is uncertain, however, the renewal of this concession at lower permitted annual revenues has been assumed and incorporated in the company's ratings.

CTEEP generates a stable and predictable cash flow, exhibiting the low business risk profile of an electric transmission utility company. CTEEP's tariff-setting mechanism is straightforward, receiving minor intervention from its regulator. The company's tariffs are fixed and 86.4% of its permitted annual revenue will not be revised by the regulator until 2015, being adjusted by inflation every July. The other 13.6% are revised by the regulator every four years and automatically adjusted by inflation every year. CTEEP's revenue is stable and exempt from volumetric risk. The permitted annual revenue, which represented approximately 99% of the company's total revenue in 2008, is based on the electricity transmission assets available to users, instead of the transmitted electricity volume.

CTEEP's credit metrics are supportive of its holding company's credit ratings. The operating asset credit metrics are characterized by low leverage and strong interest coverage. Since ISA Capital's acquisition, CTEEP's EBITDA margin has improved, as expected, to approximately 84% in 2008 fiscal year from the pre-acquisition 54% in the first half of 2006. CTEEP's current EBITDA margin is more in line with its peers. Healthy operating cash flow has allowed the company to finance its growth with internally generated cash and thus maintain low leverage levels.

ISA Capital's ratings also reflect the strong covenant package that, among other things, limits CTEEP's future level of indebtedness. CTEEP's expected leverage and interest coverage should be well within the limits imposed by the covenants, which require leverage of no more than 3.0x and interest coverage of at least 3.0x. In addition, under the covenant package, ISA Capital is not allowed to declare or pay any dividends or make any distributions.

ISA Capital is a holding company created to participate in the privatization of CTEEP. The company was incorporated with a USD378 million equity contribution by Interconexion Eléctrica S.A. E.S.P. (ISA) and a US\$609 million intercompany loan from ISA. CTEEP, ISA Capital's sole source of revenue and only operating asset, is an electricity transmission company located in the state of Sao Paulo. It is the largest company of its type in Sao Paulo and the largest privately owned transmission company in the country. The company holds three concessions for the transmission of electricity in the state of Sao Paulo, the first one expiring in 2015 and the second one in 2031. The third concession contract, expiring in 2038, was signed on March 17, 2008 and comprises the construction, operating and maintenance of two transmission lines in the Northeast of Brazil that CTEEP won in a November 2007 auction. CTEEP's bulk revenue is generated by the contract that expires in 2015 and can be renewed for an additional 20 years at the regulator's discretion.

Contact: Lucas Aristizabal +1-312-368-3260, Chicago; or Pagsi Jimenez +55-11-4504-2600 Sao Paulo.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com; Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.