FitchRatings

FITCH AFFIRMS ISA CAPITAL DO BRASIL'S IDRS AT 'BB+'/'AA-(BRA)'; CTEEP'S IDR AT 'AA+(BRA)'

Fitch Ratings-Chicago-27 August 2013: Fitch Ratings has affirmed ISA Capital do Brasil S.A.'s (ISA Capital) foreign and local currency Issuer Default Ratings (IDRs) at 'BB+', and its National scale rating at 'AA-(bra)'. In addition, Fitch has affirmed the company's USD31.6 million of senior secured notes outstanding at 'BBB-'. The Rating Outlook is Stable.

Concurrently, Fitch has affirmed Companhia de Transmissao de Energia Eletrica Paulista S.A.'s (CTEEP) National scale long-term rating at 'AA+(bra)'. The rating action applies to approximately BRL500 million of outstanding debentures maturing in 2014 and 2017. The Rating Outlook is stable.

KEY RATING DRIVERS

ISA Capital's ratings reflect the strong credit quality of 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.

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 over-collateralized. The USD31.6 million (BRL57 million) of outstanding debt is secured by 60% of ISA Capital's shares in CTEEP, a stake which is currently valued at approximately BRL1.4 billion based on CTEEP's current market capitalization value of BRL6.1 billion.

STRUCTURAL SUBORDINATION:
ISA Capital's credit quality reflects the company's structural subordination to CTEEP's obligations given that ISA owns only 37.8% of its total capital and does not receive the full benefits of operating cash flow. CTEEP's leverage is considered adequate for the rating category, and ISA Captal's capital structure has marginally improved since the company repurchased the bulk of its debt outstanding and refinanced it with preferred equity. As of Dec. 31, 2012, ISA Capital's consolidated debt amounted to approximately BRL5 billion. This debt consisted of approximately BRL3.7 billion at CTEEP and its subsidiaries and BRL1.2 billion at ISA Capital (including its preferred shares). This translates into a leverage ratio of 3.4x on a consolidated basis.

STRONG CREDIT METRICS:
CTEEP's cash flow generation and cash flow distributions (dividends) to ISA Capital are stable and predictable. ISA Capital's consolidated funds from operations (FFO) interest coverage ratio of approximately 15x as of Dec. 31, 2012 was considered strong for the rating category. During 2012, ISA Capital received approximately BRL200 million of dividends from CTEEP. Going forward, distributions from CTEEP are expected to range between BRL100 million and BRL200 million per year, down from the previous expectation of BRL250 million to BRL300 million, which reflects CTEEP's revised cash flow profile after the company accepted the government's proposal to renew its main concession for lower tariffs early. ISA Capital is expected to use the proceeds it receives from CTEEP, together with its cash on hand (which stood at approximately BRL422 million as of December 2012) to pay dividends on preferred equity and service the remaining portion of the 2017 bonds not tendered during 2010.

LOW BUSINESS RISK:
CTEEP's monopoly position stems from its exclusive right to provide electricity transmission services through its multiple concessions. Furthermore, two CTEEP concessions 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. CTEEP's strong market position should further benefit the company when it participates in future bids for new transmission lines.

STABLE CASH FLOW GENERATION:
CTEEP cash flow generation is very stable and predictable, exhibiting the low business risk profile of an electric transmission utility company. CTEEP's revenues are exempt from volumetric risk as its maximum permitted annual revenue (PAR) is based on the electricity transmission assets available to users, instead of the transmitted electricity. The company's cash flow generation saw a significant decrease at the end of 2012 given that the company accepted a government proposal for early renewal of its main concession which expires in 2015 for an upfront payment of approximately BRL2.9 billion and an additional compensation to be paid during the next 30 years of the concession. CTEEP intends to use the proceeds from the upfront payment to repay debt as it becomes due in order to maintain a capital structure that is in line with the new cash flow generation profile. Fitch expects ISA Capital's consolidated leverage to range between 2.0x and 3.0x going forward.

NEUTRAL CREDIT IMPACT FROM CONCESSION RENEWAL:
CTEEP's decision to accept the government's proposal to renew its concession had a neutral impact on the company's credit profile, considering the expectation that CTEEP will use its upfront payment compensation to pay down debt. In order to do the early renewal of CTEEP's main concession, and reduce the company's tariffs for it, the Brazilian Ministry of Mines and Energy (MME) offered CTEEP an upfront payment of approximately BRL2.9 billion and an estimated additional BRL3 billion which will likely be paid over the 30-year life of the new concession period. CTEEP received approximately BRL1.4 billion of the upfront payment in January 2013 and is receiving the remaining portion in 31 equal monthly installments until July 2015. As a result of receiving these proceeds, CTEEP's consolidated cash on hand as of June 2013 stood at BRL1.2 billion, which compares favorably with the company's short-term obligations of approximately BRL550 million.

The concession renewal process has somewhat affected CTEEP's ability to upstream cash to its controlling shareholder through dividend payments. As aforementioned, going forward, dividend distributions from CTEEP to ISA Capital are expected to range between BRL100 million and BRL200 million per year, down from the previous expectation of between BRL250 million to BRL300 million, which reflects CTEEP's revised cash flow profile. This revised cash flow will create challenges for ISA Capital to meet its preferred share buying program, which aims at acquiring the BRL1.2 billion of preferred shares between 2013 and 2016 in four equal repurchase of BRL300 million per year.

RATING SENSITIVITIES

Considerations that could lead to a positive rating action (in the rating or Outlook) include improving macroeconomic conditions in Brazil coupled with a Sovereign rating upgrade and a continuously strong corporate financial profile.

Considerations that could lead to a negative rating action (rating or Outlook) for ISA Capital include any changes in CTEEP's credit quality, which could be negatively affected by a significant or above-expectation increase in leverage; regulatory intervention in the tariff adjustment process; and if relevant off-balance-sheet contingencies become mandatory.

Contact:

Primary Analyst
Lucas Aristizabal
Director
+1-312-368-3260
Fitch Ratings, Inc.
70 W Madison, Street
Chicago, IL 60602

Secondary Analyst
Mauro Storino
Director
+55-21-4503-2600

Committee Chairperson
Ricardo Carvalho
Senior Director
+55-21-4503-2600

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 2013);
--'Parent and Subsidiary Rating Linkage Criteria Report' (Aug. 2013);
--'Equity Credit for Hybrids & Other Capital Securities' (Dec. 29, 2009).

Applicable Criteria and Related Research:
Equity Credit for Hybrids and Other Capital Securities: Market Feedback and Fitch's Responses
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=291784
Parent and Subsidiary Rating Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139