

**Rating Action: Moody's affirms EEB's rating; outlook changed to positive**

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Global Credit Research - 21 Aug 2014

**Approximately US\$749 million of debt securities affected**

New York, August 21, 2014 -- Moody's Investors Service affirmed today the Baa3 senior unsecured rating of Empresas de Energia de Bogota S.A. E.S.P. (EEB) and changed the rating outlook to positive from stable.

**RATINGS RATIONALE**

Today's rating action follows the recent upgrade of the District of Bogota's rating to Baa2 with a stable outlook. Because the District of Bogota is EEB's majority shareholder, EEB falls under the scope of Moody's rating methodology for Government-Related Issuers (GRIs). The Baa3 ratings reflect the application of Moody's joint default analysis (JDA) framework for government related issuers (GRIs). This takes into account the following four input factors: i) the rating of the District of Bogota along with a (ii) strong probability of extraordinary support from the municipality, and (iii) moderate level of dependence as well as (iv) EEB's Base Credit Assessment (BCA) of ba1. EEB's BCA is a representation of its intrinsic creditworthiness before taking into account possible extraordinary support from the municipality.

Importantly, the change in EEB's outlook to positive is driven by its announcement mid-August that it no longer has interest in acquiring the Colombian government's majority stake in the unregulated power generation company ISAGEN (Baa3 negative) given the divestiture conditions that the competition authorities imposed on EEB. The positive outlook further reflects our expectation that EEB will pursue in a disciplined manner its previously announced 2013-2017 growth initiatives that still considers an investment budget of around US\$7.5 billion. The positive outlook anticipates that EEB will prudently finance its pipeline of additional projects still under study of around US\$4.4 billion. To that end, the positive outlook anticipates EEB will use a balanced capital structure that combines indebtedness at the operating subsidiaries with capital raised by EEB in connection with a new equity issuance, divestitures of non-strategic assets and/or funds received from partnerships. It also considers that EEB's target consolidated debt to EBITDA remains capped at 4.0x, and that despite EEB's potentially aggressive expansion plans its credit metrics will remain well positioned within the Baa-rating category outlined in Moody's Regulated Electric and Gas Utilities ratings methodology. Specifically, that its 3-year average ratio of parent only cash flow (POCF) to parent only level of debt will at least hover around the high teens with consolidated and parent only interest coverage of at least 3.0x. The positive outlook further assumes that going forward EEB's main source of cash flows will be the dividends up-streamed primarily from regulated subsidiaries and that its exposure to cash flows from unregulated companies will be limited to the dividends received from Emgesa S.A.

EEB's BCA reflects material structural subordination given its strong dependence on its subsidiaries' cash up-streams, particularly from the non-controlled companies to service its debt despite its own transmission operations. Moody's analysis also considers that the parent only indebtedness incurred by EEB of around US\$840 million represents over 30% of the group's consolidated debt. That said, Moody's acknowledges that a significant portion of those proceeds were used to fund intercompany loans to its controlled subsidiaries, namely Transportadora de Gas Internacional S.A. E.S.P. (TGI; US\$370 million), Transportadora de Energia de Centroamerica S.A. (Trecsa; US\$115 million) and EEB Ingenieria y Servicios S.A.(EEBIS; US\$28 million).

EEB's rating could be upgraded upon the successful commission by Emgesa S.A. of its El Quimbo hydro-electric facility that has been delayed to 2015, as this subsidiary is one of EEB's main sources of cash flows. An upgrade would also consider the successful completion expected next year of the ongoing major capex program underway in Guatemala which at the end of 2Q2014 was deemed 79% completed. Upgrade considerations would also need to include whether TGI's rating would remain commensurate with the Baa3 after the refinancing later this year with a long-term amortizing bank-loan of EEB's bridge loan facility used to fund the acquisition of the 31.92% outstanding minority interest in the natural gas pipeline company.

Given EEB's positive outlook the prospects for a downgrade of its rating are limited.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Other methodologies used include Government-Related Issuers: Methodology Update methodology published in July 2010. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these

methodologies.

Headquartered in Bogota, Colombia (Baa2 stable), Empresa de Energia de Bogota S.A. E.S.P. (EEB) is a Colombian transmission company subject to the purview of the Comision de Regulacion de Energia y Gas (CREG). It is also a holding company with material equity interests in controlled and non-controlled subsidiaries that conduct their electric and natural gas operations in Colombia, Peru (A3 stable) and Guatemala (Ba1 stable). EEB's controlled subsidiaries include the Colombian natural gas transportation company, Transportadora de Gas Internacional S.A. E.S.P. (TGI; Baa3, stable; direct and indirect 99.97% ownership stake); the holding company Decsa S.A. E.S.P. (51% interest) which holds a 82% equity interest in the electric utility Empresa de Energia de Cundinamarca S.A. E.S.P. (EEC); Peruvian natural gas transportation and distribution subsidiaries: Calidda (Baa3, stable; total in- and direct interest 66.2%) and Contugas S.A.C. (total in- and direct interest 100%; including TGI's 25%); as well as the Guatemalan subsidiaries: EEB Ingenieria y Servicios S.A. (EEBIS; 100%) and Transportadora de Energia de Centroamerica S.A. (Trecsa; 98%) which are pursuing material investment programs. In 2014, EEB also incorporated the company Empresa de Movilidad de Bogota S.A.S. E.S.P. to participate via public-private joint-ventures in projects related to the electrical and gas component of mass transport infrastructure in Bogota.

EEB's non-controlled Colombian subsidiaries include the unregulated generation company Emgesa S.A. E.S.P. (43.6% of voting rights), as well as the electric and natural gas utilities Codensa S.A. E.S.P. (42.85% of voting rights) and Gas Natural S.A. E.S.P. (25%) as well as the natural gas transportation company Promigas (15.6%). The latter holds majority stakes in natural gas distribution companies and the remaining 40% equity interest in Calidda. EEB also holds a 40% equity interest in the Peruvian electric transmission companies Red de Energia del Peru (REP) and Consorcio TransMantaro (CTM; Baa3, stable).

The District of Bogota remains EEB's majority shareholder with a 76.3% ownership stake. EEB's remaining shareholders consist of Ecopetrol (Baa2, stable; 6.87%), Corficolombiana S.A. (3.6%), local pension funds (6%) and retail investors (7.3%). As of June 30, 2014, EEB recorded non-consolidated assets of approximately US\$6.8 billion (about 73% of the consolidated assets), and funds from operations of around US\$432 million for the last twelve months ended June 30, 2014 (around 66% of the consolidated CFO).

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Natividad Martel  
Vice President - Senior Analyst  
Infrastructure Finance Group  
Moody's Investors Service, Inc.

250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

William L. Hess  
MD - Utilities  
Infrastructure Finance Group  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653



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